

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, 2018**

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission file number **001-33997**

**KANDI TECHNOLOGIES GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**90-0363723**

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

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

(Address of principal executive offices) (Zip Code)

**(86-579) 82239856**

(Registrant's telephone number, including area code)

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

**Common Stock, Par Value \$0.001 Per Share**

(Title of each class)

**NASDAQ Global Select Market**

(Name of exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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, 2018, the last business day of the registrant's second fiscal quarter, was approximately \$158,852,892.

The number of shares of common stock outstanding as of March 8, 2019 was 51,496,944.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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## **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 the date of this report is as follows:

□

Please refer to the discussion in NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES under Item 8 Notes to Consolidated Financial Statements for a narrative of our organization structure and operating subsidiaries, including their dates of incorporation and history.

## Industry Overview

Supported by the Chinese government's endorsement and driven by its focus on petroleum resource independence, and environmental protection, 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 rapid growth of the electric vehicle sector in China is supported by the Chinese government's policies. The Chinese government endorses the long-term development of new-energy vehicles. 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. China is a global leader in the new-energy vehicle sector.

## Competitive Landscape

In general, our EV business faces competition from two groups of competitors: traditional vehicle manufacturers and new market entrants.

In terms of competition with conventional fuel vehicle manufacturers, many of our conventional fuel vehicle competitors are much larger in terms of size, manufacturing capabilities, customer bases, financial, marketing and human resources than Kandi. 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 the EV industry in China. With the government's strong support and various policy incentives, the electric vehicle industry in China has the potential for significant 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. Competition within the Chinese electric vehicle market is intense as we have to compete with many domestic and global, established and new EV manufacturers nationwide, some of whom 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 most suitable products and solutions for our targeted customers in our niche market. In particular, the Online Ride Sharing Service ("ORSS") or the "Car-Share Program," is an upgraded car share program of our Micro Public Transportation (the "MPT program") that we advocated and tried for years, which had received praise by our customers and the Chinese government. We expect the ORSS program may help us 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 dependence. As one of the beneficiaries of 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 Car- Share Program and the JV Company's direct sales channel. 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 policies (including the Double Credit System policy), 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. Subway and bus used to be the most popular public transportation options available. They 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. Urban public transportation system can be improved with the ORSS program.

In order to further improve the Car- Share Program, we united other operators in more than 10 cities to form of a five-year 300,000 units online ride-sharing service alliance at the beginning of 2019. As one of the most active practitioners of sharing economy model in China nowadays, this innovative business model provides a total solution to EV sharing. The character of this program is that all the cars casted to the online platform by the alliance use the changing-battery-model. The changing battery model solves the problems including high price of EVs, short recharging mileage, long recharging time, shortage of charging facilities, battery attenuation and potential pollution problem and so on. Furthermore this model allows the battery to be slowly recharged at a constant temperature, which prolongs the usage life of the battery and truly realize green energy efficiency. We have reason to believe that this upgrade to ORSS program from MPT advocated and practiced by Kandi will become the benchmark of urban car-share and play a significant role in the development of China's urban travel ecosphere.

On July 1, 2018, we acquired 100% ownership of SC Autosports, LLC ("SC Autosports"). SC Autosports is a Dallas-based sales company primarily engaged in the wholesale of off-road vehicle products, with a small percentage of its business derived from off-road vehicle parts wholesale and retail. Currently, it has a seasoned management team and a distribution force averaging over ten years of sales experience. With nationwide sales channels in the U.S.

SC Autosports is going to commence the sales of the electric vehicles in 2019. On February 20, 2019, Kandi's Model EX3 and Model K22, have received approval from the National Highway Traffic Safety Administration ("NHTSA"). The NHTSA approval is an assurance that Kandi's two EV models conform to NHTSA standards and are registered in the U.S. Thus, SC Autosports is confident to launch these two models to American market.

## Our Products

### General

For the years ended December 31, 2018, 2017 and 2016, our products consist of 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 continue to develop and manufacture new products in an effort to meet market demand and better serve our customers.

The following table shows the breakdown of our net revenues:

|   | Year Ended December 31, |                       |                       |
|---|-------------------------|-----------------------|-----------------------|
|   | 2018                    | 2017                  | 2016                  |
|   | Sales                   | Sales                 | Sales                 |
|   | Revenue                 | Revenue               | Revenue               |
| Primary geographical markets            |                         |                       |                       |
| Overseas                                | \$ 12,741,570           | \$ 4,817,517          | \$ 4,919,054          |
| China                                   | 99,697,258              | 97,988,104            | 124,572,959           |
| Total                                   | <u>\$ 112,438,828</u>   | <u>\$ 102,805,621</u> | <u>\$ 129,492,013</u> |
| Major products                          |                         |                       |                       |
| EV parts                                | \$ 99,099,312           | \$ 97,355,828         | \$ 120,079,312        |
| EV products                             | -                       | -                     | 3,718,291             |
| Off-road vehicles                       | 13,339,516              | 5,449,793             | 5,694,410             |
| Total                                   | <u>\$ 112,438,828</u>   | <u>\$ 102,805,621</u> | <u>\$ 129,492,013</u> |
| Timing of revenue recognition           |                         |                       |                       |
| Products transferred at a point in time | \$ 112,438,828          | \$ 102,805,621        | \$ 129,492,013        |
| Total                                   | <u>\$ 112,438,828</u>   | <u>\$ 102,805,621</u> | <u>\$ 129,492,013</u> |

### Sales and Distribution

In 2018, the Company had two primary products: 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, 2018, our major customers, in the aggregate, accounted for 76% of our sales. We are 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:

| Major Customers  | Sales                              |                                    |                                    | Trade Receivable     |                      |                      |
|--|------------------------------------|------------------------------------|------------------------------------|----------------------|----------------------|----------------------|
|  | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 | December 31,<br>2018 | December 31,<br>2017 | December 31,<br>2016 |
| Kandi Electric Vehicles Group Co., Ltd. and its subsidiaries | 43%                                | 90% <sup>(1)</sup>                 | 60% <sup>(2)</sup>                 | 66%                  | 74% <sup>(3)</sup>   | 70% <sup>(4)</sup>   |
| Jinhua Chaoneng Automobile Sales Co. Ltd.                    | 33%                                | 4%                                 | 30%                                | 22%                  | 23%                  | 19%                  |

(1) Including 89% of Kandi Electric Vehicles Group Co., Ltd. as disclosed in 2017 10K Major Customer

(2) Including 59% of Kandi Electric Vehicles Group Co., Ltd. as disclosed in 2016 10K Major Customer

(3) Including 71% of Kandi Electric Vehicles Group Co., Ltd. as disclosed in 2017 10K Major Customer

(4) Including 53% of Kandi Electric Vehicles Group Co., Ltd. as disclosed in 2016 10K Major Customer

## 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.

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<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 | December 31,<br>2018 | December 31,<br>2017 | December 31,<br>2016 |
| Jiangsu Tian Peng Power Supply Co., Ltd. | 23%                                | -                                  | -                                  | 20%                  | -                    | -                    |
| Shenzhen BiKe Power Battery Co., Ltd.    | 19%                                | -                                  | -                                  | 14%                  | -                    | -                    |



## 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. For 2018, Kandi Vehicles applied with the Chinese patent authority for total 23 patents, including 1 invention patent, 20 utility model patents and 2 appearance design patents. During 2018, Kandi Vehicles received total of 24 issued patents, including 1 invention patent, 14 utility model patents and 9 appearance design patents. As of December 31, 2018, Kandi Vehicles had total of 74 valid patents, including 1 invention patent, 41 utility model patents and 32 appearance design patents, as well as 2 software copyrights. For 2018, Jinhua Ankao applied with the Chinese patent authority for total of 24 patents, including 20 invention patents, 4 utility model patents. During 2018, Jinhua Ankao received total 8 issued patents, including 7 utility model patents and 1 appearance design patent. As of December 31, 2018, Jinhua Ankao had total of 24 valid patents, including 22 utility model patents and 2 appearance design patents. For 2018, Kandi New Energy applied total of 1 utility model patent. As of December 31, 2018, Kandi New Energy had total of 4 valid patents, all of which are appearance design patents. 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. In addition, we are authorized to use the trademark “Kandi” and we are the owner of the trademark “JASSCOL”. The JV Company 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 High and New Technology Enterprise by Zhejiang Provincial Science and Technology Bureau, Zhejiang Provincial Department of Finance, Zhejiang Provincial National Tax Bureau and Zhejiang Provincial Local Tax Bureau on November 13, 2017. The certification is valid for three years. The status of being a national High and New Technology Enterprise qualifies Kandi Vehicles for a preferred 15% income tax rate, as opposed to a standard corporate income tax rate at 25%.

In 2018, Kandi Vehicles was recognized as top 10 enterprises of Jinhua Economic Development Zone and Jinhua Ankao was identified as National High and New Technology Enterprise.

## Employees

As of December 31, 2018, excluding the contractors and the employees with the JV Company, Kandi had a total of 705 full-time employees, as compared to 564 full-time employees on December 31, 2017, of which 423 employees are production personnel, 29 employees are sales personnel, 87 employees are research and development personnel, and 166 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 standards and 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.

According to the management's knowledge, the Company's products have been designed and developed according to the environmental regulations of the target market since the research and development period, and have passed the corresponding tests before the products are put into production and sales, and obtained the compulsory product certification of the corresponding countries and regions.

If the standards and rules we execute are modified, or interpreted differently, or the product certification certificate expires, we will evaluate the product and restart the corresponding product design improvement and product testing/certification procedures to continuously ensure the target market environment regulatory compliance. The Company cannot estimate the extent to which these changes, if any, will affect our operating costs in the future.

As of December 31, 2018, the Company's subordinates, Kandi Electric Vehicles and SC Autosports, conducted a policy investigation and conformity assessment on environmental regulations and standards for the Kandi electric vehicles EX3 and K22 sold to the US market. The Company's subsidiaries will develop and implement corresponding action plans based on the assessment results. The resources required to implement such an action plan will be an important part of the foreseeable cost of sales that constitutes the export of Kandi EVs to the United States.

However, once the US changes in environmental protection policies and regulations for automotive products, or changes in import tariff policies, or changes in US automobile product consumption tax policies, or changes in US new energy vehicle product subsidy policies, the Company cannot estimate the impact of these changes on the EV sales in the United States.

## **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 and regulates the safety of electric vehicles for 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. Both Kandi and SC Autosports currently comply 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 off-road vehicles 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.

For the future sales of Kandi EX3\K22 electric vehicle to the US market, the Company's R&D department collected and checked the relevant provisions adopted by NHTSA by the end of 2018. Through the conformity assessment and design improvement of product safety standards, the Kandi EX3 and K22 electric vehicles were approved by NHTSA and obtained the qualification for the import and registration of electric vehicles in the United States. Therefore, Kandi believes that the EX3\K22 electric vehicle can meet the US product safety regulations and standards.

#### **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 January 9, 2019, we announced that Kandi Jiangsu received an approval notice from Jiangsu Development and Reform Commission regarding Kandi Jiangsu's annual capacity of 50,000 pure electric vehicles project (the "EV Project") on January 8, 2019. The approval was granted pursuant to the provisions of Announcement No. 22 - the "Regulations on the Administration of Investment in the Automobile Industry" (the "Auto Regulations") published on December 18, 2018 by the National Development and Reform Commission (the "NDRC"). Kandi Jiangsu's EV Project application was assigned to the Jiangsu Provincial Development and Reform Commission for review and subsequent approval.

On January 22, 2019, we announced that the JV Company led the efforts in organizing a five-year online ride-sharing service alliance in Hangzhou on January 13, 2019 (the "Online Ride-sharing Service Alliance"). The Online Ride-sharing Alliance was initiated by Zhejiang Ruibo New Energy Vehicle Service Company Ltd. ("Zhejiang Ruibo"). Its goal is to provide 300,000 government-accredited vehicles within five years. Participating companies from more than ten cities including Beijing, Tianjin, Shenzhen, Chengdu, Suzhou, Guangzhou, and Xiamen jointly signed the alliance agreement. On January 18, 2019, the JV Company signed a Framework Agreement with Zhejiang Ruibo to serve as the primary vehicle supplier for the Online Ride-Sharing Service Alliance and provide 300,000 government-accredited vehicles for the ride-sharing service.

On January 29, 2019, we announced that the JV Company and Hangzhou Youxing Technology Co. Ltd. (“Youxing Technology”) have agreed to collaborate in exploring new and innovative models for an online ride-sharing business with their combined resources and market advantages. On January 28, 2019, representatives from each party, Mr. Zhu Feng, CEO of the JV Company and Mr. Dong Kainan, General Manager of Youxing Technology signed a Cooperation Agreement. Mr. Hu Xiaoming, Chairman of the JV Company and Mr. Liu Jinliang, Chairman of Youxing Technology also attended the signing ceremony. The two parties have agreed to utilize the “Cao Cao Zhuan Che” online ride-sharing platform to launch 20,000 Kandi brand pure electric vehicles for urban network ride-sharing services within three years.

On February 4, 2019, we announced that the JV Company received a RMB 1.6 billion (approximately US\$237.2 million) supply chain finance (SCF) program, to be used as capital support for the JV Company, from the National Economic and Technological Development Zone of Rugao City. The total capital support amount of the SCF program has increased to RMB 1.6 billion (approximately US\$237.2 million) based on the initial SCF program of RMB 730 million (approximately US\$108 million) we received in May 2017. As of February 3, 2019, RMB 1.28 billion (approximately US\$190.2 million) has already been received, and the remainder will be provided according to the JV Company’s capital requirements.

On February 20, 2019, we announced that Kandi brand electric vehicle (“EV”) Models EX3 and K22 have been approved for importation and registration in the USA by NHTSA. This is another significant milestone after qualifying for a \$7,500 U.S. federal tax credit in October 2018. The NHTSA approval provides assurance that Kandi’s two EV models conform to NHTSA standards and are registered in the U.S. The JV Company will begin the process of launching the Model EX 3 and Model K22 for the American market.

On March 4, 2019, we announced that further steps the JV Company has taken in order to maintain favorable momentum generated by its recent establishment of the government-accredited Online Ride-sharing Service Alliance on January 13, 2019. The JV Company signed a strategic cooperative agreement for operating government-accredited vehicles with China Resources (Zhejiang) Vehicle and Ship Natural Gas Co., Ltd (“China Resources Zhejiang”) on March 2, 2019. The JV Company led the efforts in organizing the Online Ride-sharing Service Alliance, which includes over 10 vehicle service providers such as Zhejiang Ruibo and Hangzhou Ruixiang. The mission of the Online Ride-sharing Service Alliance is to provide 300,000 government-accredited vehicles for the ride-hailing service within five years. The JV Company will be the primary vehicle supplier in the Online Ride-sharing Service Alliance, responsible for delivering pure electric vehicles with quick battery exchange features. Going forward, China Resources Zhejiang will be in charge of investment and operations of Online Ride-sharing Service Alliance’s vehicle battery exchange business.

On March 11, 2019, we announced that Kandi Pure EV Models EX3 and K22 reached another significant milestone in the American market. After both models received approval of eligibility in October 2018 for up to a \$7,500.00 New Qualified Plug-in Electric Drive Motor Vehicle Credit (the “Credit”) from the Internal Revenue Service (“IRS”) for U.S. customers who purchased models EX3 and K22 in 2019, new U.S. buyers who purchase models EX3 and K22 in 2020 also qualify for the Credit according to Internal Revenue Code Section 30D.

#### **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 (including the products SC Autosports sells in the U.S.) 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, 2018 and 2017 our major customers (above 10% of the total revenue), in the aggregate, accounted for 76% and 90%, 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, 2018 and 2017 our top two suppliers accounted for 42% and 51% 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.***

Due to the changes of the policies, 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 mainly in the following aspects.

2019 will be the implementation year for a decline in subsidies for new energy vehicles. The Chinese government's subsidy for new energy vehicles has continued to decline compared to past years. However, as of the date of this report, the new government policy regarding state subsidies for new energy vehicles has not yet been released. The Chinese government has not made clear the extent to which new energy vehicle subsidies will decline. The Company cannot predict in the coming year whether the declining levels of national new energy vehicle subsidies will be made up by the scale effect of production, a reduction of the purchase price of key parts, or tightened control of manufacturing costs. This may also present greater challenges to the JV Company's operations. Therefore, changes in government support policies may have a significant adverse impact on the Company's business prospects, operating results, cash flow and profitability in the coming years.

## **Risks associated with the export of Kandi electric vehicles to the United States**

***Our intellectual property rights may be harmed by competitors preemptively filing legitimate and illegitimate patents, which could create significant barriers for our business by preventing us from adequately protecting our intellectual property.***

Multinational automobile companies usually obtain patent portfolios consisting of basic patents and peripheral patents on improvements and related technologies, thereby creating patent barriers in the industry. At the same time, certain multinational automobile companies also maliciously apply for patents, in order to obtain an unlawful competitive advantage or to directly receive invalid rights and use patents as weapons in litigation. New energy vehicles are emerging products in worldwide markets in recent years, while relevant and related patents in the industry are still in force. Kandi Electric Vehicles may be seriously adversely affected by intellectual property rights barriers through participation in the competitive international automobile market. Therefore, Kandi Electric Vehicles faces risks of patent barriers and intellectual property litigation in the future.

***Failures in our overseas business and export trade processes may present a risk of significant losses to our business.***

Our automobile product export and overseas operations sections involve import and export currency exchange, insurance, ocean transportation, customs clearance and various other logistical procedures. A loss of trust in any part of the chain can lead to the failure of transactions, which in turn causes huge losses to our enterprise. In the future, the Company will expand its overseas market. An insufficient assessment of the capital strength and commercial credit of its partners, or any fraud in risk prevention and risk control systems may cause economic losses for the Company due to its business partners' breach of contract or even fraud. In short, the export of Kandi electric vehicles to the United States may have risks in the overseas operation and export trade process.

***The developed countries that import our products have strict environmental laws and regulations which may cause us to expend significant sums to comply with such laws and regulations.***

The United States and other developed countries have strong awareness of environmental protection and product safety regulations. The penalties for violating environmental laws in such countries are extremely high. Developed countries have mature and highly saturated automobile markets. Costs associated with maintaining controls over atmospheric emissions, harmful toxic substances, and products safety are getting higher in an accelerated manner. The process for a company to obtain the applicable certifications is time-consuming, complicated and expensive. Kandi Electric Vehicles will also face the adverse impact of compliance with policy and regulatory standards in the United States. Thus, Kandi electric vehicles may face the risk of not being able to sustain its business in accordance with US and state environmental protection and product safety policies and regulations.

***Our short-term financial performance may suffer due to our investment in expanding our presence and sales in the United States.***

Chinese auto products have market competition disadvantages in terms of technology content, product structure, product quality and brand influence. It is difficult to reverse the sentiment of "low quality and low price" that have followed Chinese automobiles for a long time, resulting in weakened bargaining power for Chinese auto companies and generally low gross profit margins. In the future, Kandi will expand into the US market and rely on overseas distributors to establish a marketing network and after-sales service guarantee system. All actions require the Company to invest a certain amount of resources. Additionally electric vehicle sales may face a slow growth period. In a certain period of time, the growth of operating income lags behind the increase in sales inputs. At the same time, the company cannot predict the direct economic loss caused by an unsatisfactory market expansion caused by the adverse factors of market competition. Cash flows for Kandi Electric Vehicles and SC Autosports may be significantly adversely affected by large investments and small revenues in the short term. Therefore, in the future, there may be a risk that the short-term financial performance indicators will fall due to factors such as the expansion of resources in overseas markets.

## 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 24.4% of our outstanding shares of common stock as of December 31, 2018. 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 27.0% 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:

| <b>Location</b>                  | <b>Area<br/>(square<br/>meters)</b> | <b>Term and Expiration</b>  | <b>Certificate No.</b> |
|----------------------------------|-------------------------------------|-----------------------------|------------------------|
| 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              |
| Zhejiang Qiaoxia Industrial Park | 3,851                               | Jan 21, 2018 – Jan 20, 2068 | 3310-1414461           |



As of December 31, 2018, the net book value of Zhejiang Jinhua Industrial Park's land use rights pledged as collateral for the Company's bank loans were \$7,756,253.

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 the 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:

| <b>Description</b> | <b>Area<br/>(square<br/>meters)</b> | <b>Status</b>     |
|--------------------|-------------------------------------|-------------------|
| 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 |

As of December 31, 2018, the net book value of Zhejiang Jinhua Industrial Park's property, plant and equipment pledged as collateral for the Company's bank loans were \$8,105,419.

### **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:

| <b>Description</b> | <b>Area<br/>(square<br/>meters)</b> | <b>Status</b>     |
|--------------------|-------------------------------------|-------------------|
| 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. Currently, the Hainan facility's main project including manufacturing plant and office, main manufacturing equipment and facilities has been completed.

| <b>Description</b> | <b>Area<br/>(square<br/>meters)</b> | <b>Status</b> |
|--------------------|-------------------------------------|---------------|
| Factories          | 196,000*                            | Completed     |

\* Estimate number based on investment agreement signed with local government as the land certificate is in the process of application.

### **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".

#### *Holders of Common Stock*

As of March 8, 2019, there were 33 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, 2013, through December 31, 2018, 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, 2013, 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.

|   | <b>As of December 31,</b>       |                 |                 |                |                |
|---|---------------------------------|-----------------|-----------------|----------------|----------------|
| <b>CONSOLIDATED BALANCE SHEETS DATA:</b>                                | <b>2018</b>                     | <b>2017</b>     | <b>2016</b>     | <b>2015</b>    | <b>2014</b>    |
| Cash and cash equivalents   | \$ 15,662,201                   | \$ 4,891,808    | \$ 12,235,921   | \$ 16,738,559  | \$ 26,379,460  |
| Restricted cash   | 6,690,870                       | 11,218,688      | 12,957,377      | 16,172,009     | 13,000,731     |
| Working capital   | 2,526,911                       | 53,707,902      | 86,348,025      | 67,464,090     | 39,202,684     |
| Total assets  | 428,829,264                     | 438,332,844     | 439,698,185     | 371,469,024    | 323,073,352    |
| Short-term bank loans   | 30,539,236                      | 33,042,864      | 34,265,065      | 36,656,553     | 35,589,502     |
| Total liabilities   | 203,206,390                     | 215,342,532     | 207,350,718     | 132,543,456    | 111,488,513    |
| Total shareholders' equity  | 225,622,874                     | 222,990,312     | 232,347,467     | 238,925,568    | 211,584,839    |
|   | <b>Years Ended December 31,</b> |                 |                 |                |                |
| <b>CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME DATA:</b> | <b>2018</b>                     | <b>2017</b>     | <b>2016</b>     | <b>2015</b>    | <b>2014</b>    |
| <b>REVENUES, NET</b>  | \$ 112,438,828                  | \$ 102,805,621  | \$ 129,492,013  | \$ 201,069,173 | \$ 170,229,006 |
| <b>COST OF GOODS SOLD</b>   | (92,191,383)                    | (88,461,432)    | (111,770,197)   | (172,649,955)  | (146,825,073)  |
| <b>GROSS PROFIT</b>   | 20,247,445                      | 14,344,189      | 17,721,816      | 28,419,218     | 23,403,933     |
| Research and development  | (10,084,378)                    | (27,628,085)    | (26,504,650)    | (3,482,511)    | (2,755,637)    |
| Selling and marketing   | (3,189,022)                     | (1,465,007)     | (1,567,707)     | (633,863)      | (1,345,588)    |
| General and administrative  | (8,612,393)                     | (11,333,336)    | (20,665,709)    | (28,255,267)   | (14,058,548)   |
| <b>(LOSS) INCOME FROM OPERATIONS</b>                                    | (1,638,348)                     | (26,082,239)    | (31,016,250)    | (3,952,423)    | 5,244,160      |
| Interest income   | 1,324,812                       | 2,269,844       | 2,961,153       | 3,138,717      | 1,701,121      |
| Interest (expense)  | (1,871,851)                     | (2,280,286)     | (1,831,667)     | (2,214,635)    | (3,480,646)    |
| Change in fair value of financial instruments                           | -                               | -               | 3,823,590       | 8,519,295      | 6,531,308      |
| Change in fair value of contingent consideration                        | 3,405,864                       | -               | -               | -              | -              |
| Government grants   | 17,787,445                      | 5,913,554       | 25,913,540      | 1,645,032      | 288,498        |
| Share of loss in associated companies                                   | -                               | -               | -               | -              | (54,308)       |
| Share of (loss) profit after tax of JV                                  | (17,888,706)                    | (11,555,302)    | (7,307,510)     | 11,841,855     | 4,490,266      |
| Other income (loss), net  | 956,839                         | 123,925         | 1,627,933       | 1,814,882      | (34,649)       |
| <b>Total other income (loss), net</b>                                   | 3,714,403                       | (5,528,265)     | 25,187,039      | 24,745,146     | 9,441,590      |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>                                | 2,076,055                       | (31,610,504)    | (5,829,211)     | 20,792,723     | 14,685,750     |
| <b>INCOME TAX (EXPENSE) BENEFIT</b>                                     | (7,770,754)                     | 3,263,030       | (681,546)       | (6,127,228)    | (2,414,412)    |
| <b>NET (LOSS) INCOME</b>  | (5,694,699)                     | (28,347,474)    | (6,510,757)     | 14,665,495     | 12,271,338     |
| <b>OTHER COMPREHENSIVE INCOME</b>                                       |                                 |                 |                 |                |                |
| Foreign currency translation  | (13,610,495)                    | 13,846,110      | (15,415,223)    | (9,631,753)    | (2,725,143)    |
| <b>COMPREHENSIVE (LOSS) INCOME</b>                                      | \$ (19,305,194)                 | \$ (14,501,364) | \$ (21,925,980) | \$ 5,033,742   | \$ 9,546,195   |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING BASIC</b>                        | 51,188,647                      | 47,943,830      | 47,447,665      | 46,744,718     | 42,583,495     |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED</b>                      | 51,188,647                      | 47,943,830      | 47,447,665      | 46,925,554     | 42,715,818     |
| <b>NET (LOSS) INCOME PER SHARE, BASIC</b>                               | \$ (0.11)                       | \$ (0.59)       | \$ (0.14)       | \$ 0.31        | \$ 0.29        |
| <b>NET (LOSS) INCOME PER SHARE, DILUTED</b>                             | \$ (0.11)                       | \$ (0.59)       | \$ (0.14)       | \$ 0.31        | \$ 0.29        |

## 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, 2018, we recognized total revenue of \$112,438,828 as compared to \$102,805,621 for the year ended December 31, 2017, an increase of \$9,633,207 or 9.4%. In 2018, we recorded \$20,247,445 of gross profit, an increase of 41.2% from 2017, primarily due to the increase of revenue. Gross margin for the year ended December 31, 2018 was 18.0%, an increase from 14.0% for the year ended December 31, 2017. We recorded a net loss of \$5,694,699 in 2018 compared to a net loss of \$28,347,474 in 2017, a decrease of net loss of \$22,652,775 or 79.9%, largely due to the increased gross profits, the decreased R&D expenses and the receipt of the remaining portion of subsidies this year from Hainan provincial government to assist our development of K23 model in 2017 and 2016.

Over the next 12 months, we plan to continue to market and sell our current products and to develop new products to meet market demand and penetrate domestic and international market. 2019 will be the implementation year for a decline in subsidies for new energy vehicles. The Chinese government's subsidy for new energy vehicles has continued to decline compared to past years. However, as of the date of this report, the new government policy regarding state subsidies for new energy vehicles has not yet been released. The Chinese government has not made clear the extent to which new energy vehicle subsidies will decline. The Company cannot predict in the coming year whether the declining levels of national new energy vehicle subsidies will be made up by the scale effect of production, a reduction of the purchase price of key parts, or tightened control of manufacturing costs. This may also present greater challenges to the JV Company's operations. Therefore, changes in government support policies may have a significant adverse impact on the Company's business prospects, operating results, cash flow and profitability in the coming years. To weather the challenging market situation, we intend to continue to strengthen our technical abilities, improve our core competitiveness, and enhance our brand image to broaden our customer base and increase our market share.

### Results of Operations

#### Comparison of Years Ended December 31, 2018, 2017 and 2016

The following table sets forth the amounts and the percentage relationship to revenues of certain items in our consolidated statements of operations for the years ended December 31, 2018, 2017 and 2016:

|  | Year Ended           |                 |                      |                 | December 31,<br>2016 | % of<br>Revenue | Change in<br>Amount<br>2018 VS<br>2017 | Change<br>in %  | Change in<br>Amount<br>2018 VS<br>2016 | Change<br>in %  |
|--|----------------------|-----------------|----------------------|-----------------|----------------------|-----------------|--|-----------------|--|-----------------|
|  | December 31,<br>2018 | % of<br>Revenue | December 31,<br>2017 | % of<br>Revenue |                      |                 |  |                 |  |                 |
| REVENUES FROM UNRELATED PARTY, NET               | \$ 63,707,518        | 56.7%           | \$ 9,853,410         | 9.6%            | \$ 47,870,589        | 37.0%           | 53,854,108                             | 546.6%          | 15,836,929                             | 33.1%           |
| REVENUES FROM JV COMPANY AND RELATED PARTY, NET  | 48,731,310           | 43.3%           | 92,952,211           | 90.4%           | 81,621,424           | 63.0%           | (44,220,901)                           | (47.6%)         | (32,890,114)                           | (40.3%)         |
| <b>REVENUES, NET</b>                             | <b>112,438,828</b>   | <b>100.0%</b>   | <b>102,805,621</b>   | <b>100.0%</b>   | <b>129,492,013</b>   | <b>100.0%</b>   | <b>9,633,207</b>                       | <b>9.4%</b>     | <b>(17,053,185)</b>                    | <b>(13.2%)</b>  |
| COST OF GOODS SOLD                               | (92,191,383)         | (82.0%)         | (88,461,432)         | (86.0%)         | (111,770,197)        | (86.3%)         | (3,729,951)                            | 4.2%            | 19,578,814                             | (17.5%)         |
| <b>GROSS PROFIT</b>                              | <b>20,247,445</b>    | <b>18.0%</b>    | <b>14,344,189</b>    | <b>14.0%</b>    | <b>17,721,816</b>    | <b>13.7%</b>    | <b>5,903,256</b>                       | <b>41.2%</b>    | <b>2,525,629</b>                       | <b>14.3%</b>    |
| <b>OPERATING EXPENSES:</b>                       |                      |                 |                      |                 |                      |                 |  |                 |  |                 |
| Research and development                         | (10,084,378)         | (9.0%)          | (27,628,085)         | (26.9%)         | (26,504,650)         | (20.5%)         | 17,543,707                             | (63.5%)         | 16,420,272                             | (62.0%)         |
| Selling and marketing                            | (3,189,022)          | (2.8%)          | (1,465,007)          | (1.4%)          | (1,567,707)          | (1.2%)          | (1,724,015)                            | 117.7%          | (1,621,315)                            | 103.4%          |
| General and administrative                       | (8,612,393)          | (7.7%)          | (11,333,336)         | (11.0%)         | (20,665,709)         | (16.0%)         | 2,720,943                              | (24.0%)         | 12,053,316                             | (58.3%)         |
| <b>Total Operating Expenses</b>                  | <b>(21,885,793)</b>  | <b>(19.5%)</b>  | <b>(40,426,428)</b>  | <b>(39.3%)</b>  | <b>(48,738,066)</b>  | <b>(37.6%)</b>  | <b>18,540,635</b>                      | <b>(45.9%)</b>  | <b>26,852,273</b>                      | <b>(55.1%)</b>  |
| <b>LOSS FROM OPERATIONS</b>                      | <b>(1,638,348)</b>   | <b>(1.5%)</b>   | <b>(26,082,239)</b>  | <b>(25.4%)</b>  | <b>(31,016,250)</b>  | <b>(24.0%)</b>  | <b>24,443,891</b>                      | <b>(93.7%)</b>  | <b>29,377,902</b>                      | <b>(94.7%)</b>  |
| <b>OTHER INCOME (EXPENSE):</b>                   |                      |                 |                      |                 |                      |                 |  |                 |  |                 |
| Interest income                                  | 1,324,812            | 1.2%            | 2,269,844            | 2.2%            | 2,961,153            | 2.3%            | (945,032)                              | (41.6%)         | (1,636,341)                            | (55.3%)         |
| Interest expense                                 | (1,871,851)          | (1.7%)          | (2,280,286)          | (2.2%)          | (1,831,667)          | (1.4%)          | 408,435                                | (17.9%)         | (40,184)                               | 2.2%            |
| Change in fair value of financial instruments    | -                    | 0.0%            | -                    | 0.0%            | 3,823,590            | 3.0%            | -                                      | -               | (3,823,590)                            | (100.0%)        |
| Change in fair value of contingent consideration | 3,405,864            | 3.0%            | -                    | 0.0%            | -                    | 0.0%            | 3,405,864                              | -               | 3,405,864                              | -               |
| Government grants                                | 17,787,445           | 15.8%           | 5,913,554            | 5.8%            | 25,913,540           | 20.0%           | 11,873,891                             | 200.8%          | -8,126,095                             | (31.4%)         |
| Share of loss after tax of JV                    | (17,888,706)         | (15.9%)         | (11,555,302)         | (11.2%)         | (7,307,510)          | (5.6%)          | (6,333,404)                            | 54.8%           | (10,581,196)                           | 144.8%          |
| Other income, net                                | 956,839              | 0.9%            | 123,925              | 0.1%            | 1,627,933            | 1.3%            | 832,914                                | 672.1%          | (671,094)                              | (41.2%)         |
| <b>Total other income (expense), net</b>         | <b>3,714,403</b>     | <b>3.3%</b>     | <b>(5,528,265)</b>   | <b>(5.4%)</b>   | <b>25,187,039</b>    | <b>19.5%</b>    | <b>9,242,668</b>                       | <b>(167.2%)</b> | <b>(21,472,636)</b>                    | <b>(85.3%)</b>  |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>         | <b>2,076,055</b>     | <b>1.8%</b>     | <b>(31,610,504)</b>  | <b>(30.7%)</b>  | <b>(5,829,211)</b>   | <b>(4.5%)</b>   | <b>33,686,559</b>                      | <b>(106.6%)</b> | <b>7,905,266</b>                       | <b>(135.6%)</b> |

|                   |                           |        |                            |         |                           |        |              |          |             |         |
|-------------------|---------------------------|--------|----------------------------|---------|---------------------------|--------|--------------|----------|-------------|---------|
| INCOME TAX        |                           |        |                            |         |                           |        |              |          |             |         |
| (EXPENSE) BENEFIT | <u>(7,770,754)</u>        | (6.9%) | <u>3,263,030</u>           | 3.2%    | <u>(681,546)</u>          | (0.5%) | (11,033,784) | (338.1%) | (7,089,208) | 1040.2% |
| <b>NET LOSS</b>   | <b><u>(5,694,699)</u></b> | (5.1%) | <b><u>(28,347,474)</u></b> | (27.6%) | <b><u>(6,510,757)</u></b> | (5.0%) | 22,652,775   | (79.9%)  | 816,058     | (12.5%) |

## Revenues

For the year ended December 31, 2018, we had net revenues of \$112,438,828 compared to net revenues of \$102,805,621 for the year ended December 31, 2017 and \$129,492,013 for the year ended December 31, 2016, representing an increase of \$9,633,207, or 9.4%, from 2017 and a decrease of \$17,053,185, or 13.2%, from 2016, respectively. Compared to 2017, the increase in revenue was primarily due to the increase in sales of off-road vehicles during 2018. Compared to 2016, the decrease in revenue for the year ended December 31, 2018, was primarily due to a decrease in EV parts sales, in both average selling price and sales volume.

The following table summarizes our revenues by product type for the years ended December 31, 2018, 2017 and 2016:

|                   | Years Ended December 31, |                |                |
|-------------------|--------------------------|----------------|----------------|
|                   | 2018                     | 2017           | 2016           |
|                   | Sales                    | Sales          | Sales          |
| EV parts          | \$ 99,099,312            | \$ 97,355,828  | \$ 120,079,312 |
| EV products       | -                        | -              | 3,718,291      |
| Off-road vehicles | 13,339,516               | 5,449,793      | 5,694,410      |
| Total             | \$ 112,438,828           | \$ 102,805,621 | \$ 129,492,013 |

### EV Parts

During the year ended December 31, 2018, our revenue from the sale of EV parts was \$99,099,312, representing an increase of \$1,743,484 or 1.8% from \$97,355,828 for the year ended December 31, 2017 and a decrease of \$20,980,000 or 17.5% from \$120,079,312 for the year ended December 31, 2016, respectively.

Our revenue for the year ended December 31, 2018 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 EV products manufactured by the JV Company, which accounted for 88.1% of total sales. Among total sales for the year ended December 31, 2018, approximately 75.6% were related to the sale of battery packs. In compliance with the regulations 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 3.5% of total sales were related to sales of EV controllers, approximately 2.7% of the total sales were related to sales of air conditioning units, approximately 3.5% of total sales were related to sales of EV drive motors and approximately 2.8% of total sales were related to sales of body parts and other auto parts.

During the year ended December 31, 2018 and 2017, our revenues from the sale of EV parts to the JV Company accounted approximately 43.3% and 90.4% of our total net revenue for the year, respectively. The EV parts we sold to the JV Company 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 2018 and 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 retained the right to sell EV products that remained in stock. The Company completed sales of EV products in stock in 2016. The Company currently primarily focuses on manufacturing and supplying EV parts to the JV Company and third parties for the production of EVs.

### Off-Road Vehicles

During the year ended December 31, 2018, our revenues from the sale of off-road vehicles including go-karts, all-terrain vehicles ("ATVs"), and others, were \$13,339,516, representing an increase of \$7,889,723 or 144.8% from \$5,449,793 for the year ended December 31, 2017, and an increase of \$7,645,106 or 134.3% from \$5,694,410 for the year ended December 31, 2016. The increase in revenue of off-road vehicles was largely due to additional sales from SC Autosports, which became our wholly-owned subsidiary in the U.S. in July 2018.

Our off-road vehicles business line accounted for approximately 11.9% of our total net revenue for the year ended December 31, 2018. Of our off-road vehicle revenue, our ATV business accounted for approximately 8.5% of our total net revenue and our go-kart business accounted for approximately 3.3% of our total net revenue.



The following table shows the breakdown of our net revenues:

|   | Year Ended December 31, |                       |                       |
|---|-------------------------|-----------------------|-----------------------|
|   | 2018                    | 2017                  | 2016                  |
|   | Sales Revenue           | Sales Revenue         | Sales Revenue         |
| Primary geographical markets            |                         |                       |                       |
| Overseas                                | \$ 12,741,570           | \$ 4,817,517          | \$ 4,919,054          |
| China                                   | 99,697,258              | 97,988,104            | 124,572,959           |
| Total                                   | <u>\$ 112,438,828</u>   | <u>\$ 102,805,621</u> | <u>\$ 129,492,013</u> |
| Major products                          |                         |                       |                       |
| EV parts                                | \$ 99,099,312           | \$ 97,355,828         | \$ 120,079,312        |
| EV products                             | -                       | -                     | 3,718,291             |
| Off-road vehicles                       | 13,339,516              | 5,449,793             | 5,694,410             |
| Total                                   | <u>\$ 112,438,828</u>   | <u>\$ 102,805,621</u> | <u>\$ 129,492,013</u> |
| Timing of revenue recognition           |                         |                       |                       |
| Products transferred at a point in time | \$ 112,438,828          | \$ 102,805,621        | \$ 129,492,013        |
| Total                                   | <u>\$ 112,438,828</u>   | <u>\$ 102,805,621</u> | <u>\$ 129,492,013</u> |

#### Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2018 was \$92,191,383, representing an increase of \$3,729,951, or 4.2%, from \$88,461,432 for the year ended December 31, 2017 and a decrease of \$19,578,814, or 17.5%, from \$111,770,197 for the year ended December 31, 2016. The change was primarily due to the corresponding increase in sales from 2017 and decrease in sales from 2016. Please refer to the Gross Profit section below for product margin analysis.

#### Gross Profit

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

|                   | Years ended December 31, |                   |                   |              |                      |                   |                   |              |                      |                    |                   |              |
|-------------------|--------------------------|-------------------|-------------------|--------------|----------------------|-------------------|-------------------|--------------|----------------------|--------------------|-------------------|--------------|
|                   | 2018                     |                   |                   |              | 2017                 |                   |                   |              | 2016                 |                    |                   |              |
|                   | Sales                    | Cost              | Gross Profit      | Margin %     | Sales                | Cost              | Gross Profit      | Margin %     | Sales                | Cost               | Gross Profit      | Margin %     |
| EV parts          | \$ 99,099,312            | 82,990,161        | 16,109,151        | 16.3%        | \$ 97,355,828        | 83,691,060        | 13,664,768        | 14.0%        | \$120,079,312        | 102,856,683        | 17,222,629        | 14.3%        |
| EV products       | -                        | -                 | -                 | -            | -                    | -                 | -                 | -            | 3,718,291            | 3,632,762          | 85,529            | 2.3%         |
| Off-road vehicles | 13,339,516               | 9,201,222         | 4,138,294         | 31.0%        | 5,449,793            | 4,770,372         | 679,421           | 12.5%        | 5,694,410            | 5,280,753          | 413,657           | 7.3%         |
| Total             | <u>\$112,438,828</u>     | <u>92,191,383</u> | <u>20,247,445</u> | <u>18.0%</u> | <u>\$102,805,621</u> | <u>88,461,432</u> | <u>14,344,189</u> | <u>14.0%</u> | <u>\$129,492,013</u> | <u>111,770,197</u> | <u>17,721,816</u> | <u>13.7%</u> |

Gross profit for the year ended December 31, 2018 was \$20,247,445, as compared to \$14,344,189 for the year ended December 31, 2017, and \$17,721,816 for the year ended December 31, 2016, representing an increase of \$5,903,256 or 41.2% from 2017 and an increase of \$2,525,629 or 14.3% from 2016. The increases were primarily attributable to the increased margin in 2018 as compared to that in 2017 and 2016. Our gross margin for the year ended December 31, 2018, was 18.0%, compared to 14.0% for the year ended December 31, 2017, and 13.7% for the year ended December 31, 2016. The increase in our gross margin as compared to 2017 and 2016 was mainly due to the higher gross margin from off-road vehicle sales of SC Autosports, a result of its effective procurement of inventories at discounted prices, as well as increased gross margin from sales of battery packs.

#### **Research and Development**

Research and development expenses, including materials, labor, equipment depreciation, design, testing, inspection, and other related expenses totaled \$10,084,378 for the year ended December 31, 2018, compared to \$27,628,085 for the year ended December 31, 2017, and \$26,504,650 for the year ended December 31, 2016, representing a decrease of \$17,543,707, or 63.5%, from 2017 and a decrease of \$16,420,272, or 62.0%, from 2016. This decrease was primarily due to the completion of R&D works related to the development of EV Model K23 at Hainan facility this year. For the year ended December 31, 2018, 2017 and 2016, approximately 66.2%, 94.2% and 94.0% of our research and development expenses were spent on the research and development of EV product model at Hainan facility, respectively, and the rest was spent on other various EV and off-road vehicles research and development projects.

#### **Sales and Marketing**

Selling and distribution expenses were \$3,189,022 for the year ended December 31, 2018, compared to \$1,465,007 for the year ended December 31, 2017, and \$1,567,707 for the year ended December 31, 2016, representing an increase of \$1,724,015, or 117.7%, from 2017 and an increase of \$1,621,315, or 103.4%, from 2016. This increase was primarily attributable to the increase in product maintenance expenses for EV drive motors and EV controllers, and the increase in shipping costs and sales labor compared to 2017 and 2016. The additional sales and marketing expenses from newly acquired SC Autosports also contributed to this increase.

#### **General and Administrative Expenses**

General and administrative expenses were \$8,612,393 for the year ended December 31, 2018, compared to \$11,333,336 for the year ended December 31, 2017 and \$20,665,709 for the year ended December 31, 2016, representing a decrease of \$2,720,943 or 24.0%, from 2017 and a decrease of \$12,053,316, or 58.3%, from 2016. For the year ended December 31, 2018, general and administrative expenses included \$2,930,486 in expenses for common stock awards to employees and consultants for their services net of \$2,644,877 of reversal of previously accrued stock option expenses for forfeited stock option, compared to \$5,191,307 and \$14,959,687 for the years ended December 31, 2017 and 2016, respectively. If excluding stock award costs, our net general and administrative expenses for the year ended December 31, 2018 were \$8,326,784, an increase of \$2,184,755, or 35.6%, compared to \$6,142,029 for the year ended December 31, 2017, and an increase of \$2,620,762, or 45.9%, compared to \$5,706,022 for the year ended December 31, 2016. The increase was largely due to the increased labor costs and the increased amortization expenses for intangible assets of Jinhua Ankao. The additional general and administrative expenses from newly acquired Jinhua Ankao and SC Autosports also contributed to this increase.

### **Interest Income**

Interest income was \$1,324,812 for the year ended December 31, 2018, compared to \$2,269,844 for the year ended December 31, 2017, and \$2,961,153 for the year ended December 31, 2016, representing a decrease of \$945,032, or 41.6%, from 2017, and a decrease of \$1,636,341, or 55.3%, from 2016. The decrease as compared to 2017 and 2016 was primarily attributable to decreased interest earned on loans to the JV Company and bank deposits.

### **Interest Expense**

Interest expense was \$1,871,851 for the year ended December 31, 2018, compared to \$2,280,286 for the year ended December 31, 2017, and \$1,831,667 for the year ended December 31, 2016, representing a decrease of \$408,435 from 2017 and an increase of \$40,184 from 2016. The decrease compared to 2017 was primarily due to less interest expenses incurred associated with note payable and loan to third party. Of the interest expenses, \$145,411, \$135,766 and \$18,694, respectively, were the discounts associated with the settlement of bank acceptance notes for the years ended December 31, 2018, 2017 and 2016.

### **Change in Fair Value of Financial Instruments**

For the year ended December 31, 2018, gain related to changes in the fair value of derivative liability relating to warrants issued to investors and placement agents was \$0, compared to \$0 for the year ended December 31, 2017, and \$3,823,590 for the year ended December 31, 2016, a decrease of \$3,823,590 from 2016. The change in fair value of derivative liability is mainly the result of all remaining unexercised warrants expired as of December 31, 2017.

### **Change in fair value of contingent consideration**

For the year ended December 31, 2018, the gain related to changes in the fair value of contingent consideration was \$3,405,864, which was mainly the result of the decrease in fair value of contingent liability between the acquisition date and December 31, 2018 for the acquisition of Jinhua An Kao and SC Autosports.

### **Government Grants**

Government grants totaled \$17,787,445 for the year ended December 31, 2018, compared to \$5,913,554 for the year ended December 31, 2017, and \$25,913,540 for the year ended December 31, 2016, representing an increase of \$11,873,891, or 200.8% from 2017 and a decrease of \$8,126,095, or 31.4% from 2016. The increase from 2017 and decrease from 2016 were primarily the results from different amount of subsidies we received from the Hainan provincial government to assist our development of K23 model in 2018, 2017 and 2016. The total grant amount of subsidies we received from the Hainan provincial government is RMB300 million (approximately USD 44 million), of which \$15,368,774, \$5,316,964 and \$24,844,149 was recognized as income in 2018, 2017 and 2016, respectively.

### **Share of Income (Loss) after Tax of the JV Company**

For the year ended December 31, 2018, the JV Company's net sales were \$122,480,854, gross loss was \$17,749,673, and net loss was \$36,340,082. 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 \$18,170,041 for the year ended December 31, 2018. After eliminating intra-entity profits and losses, our share of the after-tax loss of the JV Company was \$17,888,706 for the year ended December 31, 2018, compared to loss of \$11,555,302 for 2017 and loss of \$7,307,510 for 2016, representing an increased loss of \$6,333,404 from 2017 and an increased loss of \$10,581,196 from 2016, which was largely due to the decreased average selling prices of EV sales, as well as the increased R&D expense for new EV products.

During 2018, the JV Company's revenues were primarily derived from sales of EV products in China. The JV Company sold a total of 10,259 units of EV products in the PRC.

### **Other Income (Expense), Net**

Net other income was \$956,839 for the year ended December 31, 2018, compared to net other income of \$123,925 for the year ended December 31, 2017, and net other income of \$1,627,933 for the year ended December 31, 2016, an increase in net other income of \$832,914 from 2017 and a decrease in net other income of \$671,094 from 2016. The increase from 2017 was primarily due to the fees earned on technology development services in 2018. The decrease as compared to 2016 was largely due to fewer fees earned on technology development services, which was \$0.7 million in 2018 as compared to \$1.4 million in 2016.

### **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 Kandi Hainan and Jinhua An Kao, has an applicable Chinese corporate income tax rate of 25%. SC Autosports is a Dallas Texas based company, which has an applicable U.S. corporate income tax rate of 21%.

Despite the fact that Jinhua Ankao was identified as Zhejiang National Hi-Tech Enterprise in November 30, 2018, with Certificate Number of CR201833000715, Jinhua Ankao was still subject to 25% of Chinese corporate income tax rate as the formal certificate is still pending. Once the formal certificate is received, the tax rate will be adjusted to 15% of corporate income tax rate for Jinhua An Kao.

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

Our actual effective income tax rate for 2018 was a tax expense of 374.30% on a reported income before taxes of \$2.1 million, compared to an effective income tax rate with a tax benefit of 10.32% in 2017 on a reported loss before taxes of \$31.6 million. The increased effective tax rate was due to valuation allowance of Hainan's deferred tax assets because it had three-year accumulative loss in construction period.

#### **Net Income (Loss)**

We recorded net loss of \$5,694,699 for the year ended December 31, 2018, compared to net loss of \$28,347,474 for the year ended December 31, 2017, and net loss of \$6,510,757 for the year ended December 31, 2016, a decrease of net loss of \$22,652,775 from the year ended December 31, 2017 and a decrease of net loss of \$816,058 from the year ended December 31, 2016. The decrease in net loss compare to 2017 was primarily attributable to the increased gross profits, the decreased R&D expenses and the increased government grant we received this year, offset by increased income tax expense. The decrease in net loss compare to 2016 was primarily attributable to the decreased R&D expenses and decreased stock compensation expense, offset by increased income tax expense.

If excluding (i) the effects of stock award expenses, which were \$2,930,486 net of a reversal for forfeited stock options of \$2,644,877, \$5,191,307 and \$14,959,687 for the years ended December 31, 2018, 2017 and 2016, respectively, and (ii) the change in the fair value of financial derivatives, which were gains of \$0, \$0 and \$3,823,590 for the years ended December 31, 2018, 2017 and 2016, respectively, (iii) the change in the fair value of contingent consideration which was a gain of \$3,405,864, \$0 and \$0 for the years ended December 31, 2018, 2017 and 2016, respectively, our net loss (non-GAAP) was \$8,814,954 for the year ended December 31, 2018, as compared to net loss (non-GAAP) of \$23,156,167 for the year ended December 31, 2017, a decrease loss of \$14,341,213, and compared to net income (non-GAAP) of \$4,625,340 for the year ended December 31, 2016, a decrease income of \$13,440,294. The decrease in net loss (non-GAAP) compare to 2017 was primarily attributable to the increased gross profits, the decreased R&D expenses and the increased government grant we received this year, offset by increased income tax expense. The decrease in net income (non-GAAP) compare to 2016 was primarily attributable to the increased share of loss after tax of the JV Company offset by decreased R&D expenses.

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 GAAP.

The following table summarizes our non-GAAP net income for the years ended December 31, 2018, 2017 and 2016:

|   | Year Ended<br>December 31, |                        |                     |
|---|----------------------------|------------------------|---------------------|
|   | 2018                       | 2017                   | 2016                |
| GAAP net loss                                     | \$ (5,694,699)             | \$ (28,347,474)        | \$ (6,510,757)      |
| Stock compensation expenses                       | 285,609                    | 5,191,307              | 14,959,687          |
| Change in fair value of contingent consideration  | (3,405,864)                | -                      | -                   |
| Change of the fair value of financial derivatives | -                          | -                      | (3,823,590)         |
| Non-GAAP net (loss)income                         | <u>\$ (8,814,954)</u>      | <u>\$ (23,156,167)</u> | <u>\$ 4,625,340</u> |

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow

For the year ended December 31, 2018, cash provided in operating activities was \$13,587,621, as compared to cash used in operating activities of \$3,214,471 for the year ended December 31, 2017, and cash used in operating activities of \$49,526,543 for the year ended December 31, 2016. Our operating cash inflows include cash received primarily from sales of our EV parts and off-road vehicles. These cash inflows are offset largely by cash paid primarily to our suppliers for production materials and parts used in our manufacturing process, operation expenses, employee compensation, and interest expenses on our financings. The major operating activities that provided cash for the year ended December 31, 2018 were an increase of accounts payable of \$137,390,139, (net of assignment of notes receivable from unrelated parties to suppliers to settle accounts payable of \$ 31,347,383, assignment of notes receivable from JV Company and related parties to suppliers to settle accounts payable of \$77,107,835, settlement of accounts payable with notes payables of \$31,039,932, reversal of construction in progress and accounts payable of \$8,029,198, reclassification of overpaid accounts payable of \$16,826 to advances to suppliers, and replacement of notes payables with accounts payable of \$10,582,651), and an increase of other payables and accrued liabilities of \$60,736,669 (net of assignment of notes receivable from unrelated parties to supplier to settle other payable of \$28,636,652 and assignment of notes receivable from JV Company and related parties to supplier to settle other payable of \$34,242,433). The major operating activity that used cash for the year ended December 31, 2018 was an increase in receivables from the JV Company of \$95,442,739 (net of settlement of due from JV Company and related parties with notes receivable from related parties of \$86,461,386 and due from JV Company converted to investment in JV Company of \$82,393,493), and an increase of accounts receivable of \$57,503,289 (net of settlement of accounts receivables with notes receivable from unrelated parties of \$60,543,404).

Cash used in investing activities for the year ended December 31, 2018 was \$947,441, as compared to cash derived from investing activities of \$2,708,638 and cash derived from investing activities of \$966,627 for the years ended December 31, 2017 and 2016, respectively. During the year ended December 31, 2018, the major investing activity that used cash was \$3,555,766 for the acquisition of Jinhua An Kao net of cash received.

Cash used in financing activities for the year ended December 31, 2018 was \$5,297,724, as compared to cash used in financing activities of \$9,814,541 and cash derived from financing activities of \$ 42,570,343 for the years ended December 31, 2017 and 2016, respectively. The major financing activities that provided cash for the year ended December 31, 2018 were proceeds from notes payable of \$54,348,577 and proceeds from short-term bank loans of \$ 32,503,855. The major financing activities that used cash for year ended December 31, 2018 were \$58,588,036 of repayment of notes payable and \$33,259,759 of repayments of short-term bank loans.

### Working Capital

We had a working capital of \$2,526,911 at December 31, 2018, a decrease of \$51,180,991 from a working capital surplus of \$53,707,902 as of December 31, 2017 as Kandi Vehicle increased its capital contribution to the JV Company by converting its RMB 545 million (approximately \$79 million) of loans lent to the JV Company to the JV Company's registered capital.

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 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. We believe this practice has been ongoing year after year and that short-term bank loans will be available with normal trade terms, if necessary.

## Capital Requirements and Capital Provided

Capital requirements and capital provided for the year ended December 31, 2018 were as follows:

|  | <b>Year Ended<br/>December 31,<br/>2018<br/>(In Thousands)</b> |
|--|--|
| <b>Capital requirements</b>  |  |
| Purchase of plant and equipment                                    | \$ 583   |
| Purchases of land use rights and other intangible assets           | 104  |
| Acquisition of Jinhua An Kao                                       | 3,556  |
| Purchase of construction in progress                               | 419  |
| Repayments of short-term bank loans                                | 33,260   |
| Repayments of long-term bank loans                                 | 302  |
| Repayments of notes payable  | 58,588   |
| Increase in cash   | 6,243  |
| <b>Total capital Requirements</b>                                  | <b>\$ 103,055</b>  |
| <b>Capital provided</b>  |  |
| Acquisition of SC Autosports                                       | 487  |
| Proceeds from short-term bank loan                                 | 32,504   |
| Proceeds from notes payable  | 54,349   |
| Internal cash provided in operations                               | 13,588   |
| Long term investment   | 1,436  |
| Reimbursement of capitalize interests for construction in progress | 1,791  |
| <b>Total capital provided</b>                                      | <b>\$ 104,155</b>  |

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<br>year | 1-3 years         | 3-5 years | More than 5<br>years |
| Hainan Obligations                         | 8,674,597              | 8,674,597           | -                 | -         | -                    |
| Loans from Haikou Rural Credit Cooperative | \$ 28,794,136          | -                   | 28,794,136        | -         | -                    |
| <b>Total</b>                               | <b>\$ 37,468,733</b>   | <b>8,674,597</b>    | <b>28,794,136</b> | <b>-</b>  | <b>-</b>             |

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 K 23 model. As of December 31, 2018, the total contractual amount with Nanjing Shangtong was RMB 912,000,000 or approximately \$132 million, of which RMB 852,350,000 or approximately \$123 million has been paid and RMB 59,650,000 or approximately \$9 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 loans*

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 will be recognized in the consolidated statement of operations within operating expenses. We had allowances for doubtful accounts of \$120,010 and \$133,930 for the years ended December 31, 2018 and 2017, 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 were \$840,701 and \$620,919 of decline in net realizable value of inventory for the years ended of December 31, 2018 and 2017, 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.

We recognize revenue when goods or services are transferred to customers in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. In determining when and how revenue is recognized from contracts with customers, we perform the following five-step analysis: (i) identification of contract with customer; (ii) determination of performance obligations; (iii) measurement of the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) we satisfy each performance obligation.

We generate revenue through the sale of EV products, EV parts and off-road vehicles and our revenue recognition policies for our EV products, EV parts and off-road vehicles are the same. The revenue is recognized at a point in time once we have determined that the customer has obtained control over the product. Control is typically deemed to have been transferred to the customer when the performance obligation is fulfilled, usually at the time of delivery, at the net sales price (transaction price). Estimates of variable consideration, such as volume discounts and rebates, are determined, reviewed and revised periodically by management. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. Shipping and handling costs for product shipments occur prior to the customer obtaining control of the goods are accounted for as fulfillment costs rather than separate performance obligations and recorded as sales and marketing expenses.

***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 ("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 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 its financial statements. If a company cannot determine a provisional estimate to be included in its 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.

In connection with our initial analysis of the impact of the Tax Act, we recorded provisional estimates related to the remeasurement of deferred taxes and the Deemed Repatriation Transition Tax in our financial statements for our fiscal year ended December 31, 2017. The measurement period ended on December 22, 2018. As of December 22, 2018, we have completed the accounting for the impact of the Tax Act based on the guidance, interpretations, and data available. No adjustments to these provisional estimates have been recorded.

Under GILTI tax rules the Company must make an accounting policy election to either (1) recognize taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factor such amount into the Company's measure of its deferred taxes (the "deferred method"). The Company elected to treat the guilty as a current-period expense when incurred.

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

This item is not applicable to us.

Item 8. Financial Statements and Supplementary Data.

KANDI TECHNOLOGIES GROUP, INC.  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017  
KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Kandi Technologies Group, Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 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, 2018, 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 15, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

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 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 15, 2019

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

## 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 internal control over financial reporting of Kandi Technologies Group, Inc. and its subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, 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, 2018 and 2017, 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, 2018, and the related notes and our report dated March 15, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

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 an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provide a reasonable basis for our opinion.

### 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 15, 2019

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

|  | December 31,<br>2018  | December 31,<br>2017  |
|--|-----------------------|-----------------------|
| <b>Current assets</b>  |                       |                       |
| Cash and cash equivalents  | \$ 15,662,201         | \$ 4,891,808          |
| Restricted cash  | 6,690,870             | 11,218,688            |
| Accounts receivable (net of allowance for doubtful accounts of \$120,010 and \$133,930 as of December 31, 2018 and December 31, 2017, respectively)  | 34,274,728            | 34,397,858            |
| Inventories (net of provision for slow moving inventory of \$840,701 and \$620,919 as of December 31, 2018 and December 31, 2017, respectively)  | 21,997,868            | 15,979,794            |
| Notes receivable   | 72,712                | -                     |
| Notes receivable from JV Company and related party   | 3,861,032             | 1,137,289             |
| Other receivables  | 1,264,323             | 2,650,668             |
| Prepayments and prepaid expense  | 11,136,408            | 6,536,839             |
| Due from employees   | 1,001                 | 7,070                 |
| Advances to suppliers  | 4,705,183             | 14,908,385            |
| Amount due from JV Company, net  | 67,683,462            | 146,422,440           |
| Amount due from related party  | -                     | 162,048               |
| <b>TOTAL CURRENT ASSETS</b>  | <b>167,349,788</b>    | <b>238,312,887</b>    |
| <b>LONG-TERM ASSETS</b>  |                       |                       |
| Property, plant and equipment, net   | 82,045,923            | 12,000,971            |
| Land use rights, net   | 11,749,728            | 12,666,047            |
| Construction in progress   | -                     | 53,083,925            |
| Deferred taxes assets  | 8,204                 | 4,383,425             |
| Long term investment   | -                     | 1,460,034             |
| Investment in JV Company   | 128,929,893           | 70,681,013            |
| Goodwill   | 28,552,215            | 322,591               |
| Intangible assets  | 4,328,127             | 331,116               |
| Advances to suppliers  | -                     | 21,592,918            |
| Other long term assets   | 5,865,386             | 7,590,734             |
| Amount due from JV Company, net  | -                     | 15,907,183            |
| <b>TOTAL Long-Term Assets</b>  | <b>261,479,476</b>    | <b>200,019,957</b>    |
| <b>TOTAL ASSETS</b>  | <b>\$ 428,829,264</b> | <b>\$ 438,332,844</b> |
| <b>CURRENT LIABILITIES</b>   |                       |                       |
| Accounts payables  | \$ 112,309,683        | \$ 111,595,540        |
| Other payables and accrued expenses  | 4,251,487             | 6,556,209             |
| Short-term loans   | 30,539,236            | 33,042,864            |
| Customer deposits  | 94,408                | 205,544               |
| Notes payable  | 12,787,619            | 28,075,945            |
| Income tax payable   | 3,471,366             | 2,902,699             |
| Due to employees   | 28,473                | 35,041                |
| Deferred income  | 1,340,605             | 2,191,143             |
| <b>Total Current Liabilities</b>   | <b>164,822,877</b>    | <b>184,604,985</b>    |
| <b>LONG-TERM LIABILITIES</b>   |                       |                       |
| Long term bank loans   | 28,794,136            | 30,737,547            |
| Deferred taxes liabilities   | 1,711,343             | -                     |
| Contingent liability   | 7,256,000             | -                     |
| Other long-term liability  | 622,034               | -                     |
| <b>Total Long-Term Liabilities</b>   | <b>38,383,513</b>     | <b>30,737,547</b>     |
| <b>TOTAL LIABILITIES</b>   | <b>203,206,390</b>    | <b>215,342,532</b>    |
| <b>STOCKHOLDER'S EQUITY</b>  |                       |                       |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 55,992,002 and 48,036,538 shares issued and 51,484,444 and 48,036,538 outstanding at December 31, 2018 and December 31, 2017, respectively | 51,484                | 48,037                |
| Additional paid-in capital   | 254,989,657           | 233,055,348           |
| Retained earnings (the restricted portion is \$4,422,033 and \$4,422,033 at December 31, 2018 and December 31, 2017, respectively)   | (9,497,009)           | (3,802,310)           |
| Accumulated other comprehensive loss   | (19,921,258)          | (6,310,763)           |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>  | <b>225,622,874</b>    | <b>222,990,312</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 428,829,264</b> | <b>\$ 438,332,844</b> |

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, 2018, 2017 AND 2016**

|  | Year Ended             |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | December 31,<br>2018   | December 31,<br>2017   | December 31,<br>2016   |
| REVENUES FROM UNRELATED PARTY, NET               | \$ 63,707,518          | \$ 9,853,410           | \$ 47,870,589          |
| REVENUES FROM JV COMPANY AND RELATED PARTY, NET  | 48,731,310             | 92,952,211             | 81,621,424             |
| <b>REVENUES, NET</b>                             | <b>112,438,828</b>     | <b>102,805,621</b>     | <b>129,492,013</b>     |
| COST OF GOODS SOLD                               | (92,191,383)           | (88,461,432)           | (111,770,197)          |
| <b>GROSS PROFIT</b>                              | <b>20,247,445</b>      | <b>14,344,189</b>      | <b>17,721,816</b>      |
| <b>OPERATING EXPENSES:</b>                       |                        |                        |                        |
| Research and development                         | (10,084,378)           | (27,628,085)           | (26,504,650)           |
| Selling and marketing                            | (3,189,022)            | (1,465,007)            | (1,567,707)            |
| General and administrative                       | (8,612,393)            | (11,333,336)           | (20,665,709)           |
| <b>Total Operating Expenses</b>                  | <b>(21,885,793)</b>    | <b>(40,426,428)</b>    | <b>(48,738,066)</b>    |
| <b>LOSS FROM OPERATIONS</b>                      | <b>(1,638,348)</b>     | <b>(26,082,239)</b>    | <b>(31,016,250)</b>    |
| <b>OTHER INCOME (EXPENSE):</b>                   |                        |                        |                        |
| Interest income                                  | 1,324,812              | 2,269,844              | 2,961,153              |
| Interest expense                                 | (1,871,851)            | (2,280,286)            | (1,831,667)            |
| Change in fair value of financial instruments    | -                      | -                      | 3,823,590              |
| Change in fair value of contingent consideration | 3,405,864              | -                      | -                      |
| Government grants                                | 17,787,445             | 5,913,554              | 25,913,540             |
| Share of loss after tax of JV                    | (17,888,706)           | (11,555,302)           | (7,307,510)            |
| Other income, net                                | 956,839                | 123,925                | 1,627,933              |
| <b>Total other income (expense), net</b>         | <b>3,714,403</b>       | <b>(5,528,265)</b>     | <b>25,187,039</b>      |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>         | <b>2,076,055</b>       | <b>(31,610,504)</b>    | <b>(5,829,211)</b>     |
| INCOME TAX (EXPENSE) BENEFIT                     | (7,770,754)            | 3,263,030              | (681,546)              |
| <b>NET LOSS</b>                                  | <b>(5,694,699)</b>     | <b>(28,347,474)</b>    | <b>(6,510,757)</b>     |
| <b>OTHER COMPREHENSIVE (LOSS) INCOME</b>         |                        |                        |                        |
| Foreign currency translation                     | (13,610,495)           | 13,846,110             | (15,415,223)           |
| <b>COMPREHENSIVE LOSS</b>                        | <b>\$ (19,305,194)</b> | <b>\$ (14,501,364)</b> | <b>\$ (21,925,980)</b> |
| WEIGHTED AVERAGE SHARES OUTSTANDING BASIC        | 51,188,647             | 47,943,830             | 47,447,665             |
| WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED      | 51,188,647             | 47,943,830             | 47,447,665             |
| NET LOSS PER SHARE, BASIC                        | \$ (0.11)              | \$ (0.59)              | \$ (0.14)              |
| NET LOSS PER SHARE, DILUTED                      | \$ (0.11)              | \$ (0.59)              | \$ (0.14)              |

See notes to consolidated financial statements.



**KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

|                                     | Common Stock      |                  | Additional<br>Paid-in<br>Capital | Retained<br>Earnings  | Accumulated<br>Other<br>Comprehensive<br>Income | Total                 |
|-------------------------------------|-------------------|------------------|----------------------------------|-----------------------|---|-----------------------|
|                                     | Shares            | Par Value        |                                  |                       |   |                       |
| <b>BALANCE AT DECEMBER 31, 2015</b> | 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)           |
| <b>BALANCE AT DECEMBER 31, 2016</b> | 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)          |
| <b>BALANCE AT DECEMBER 31, 2017</b> | 48,036,538        | \$ 48,037        | \$ 233,055,348                   | \$ (3,802,310)        | \$ (6,310,763)                                  | \$ 222,990,312        |
| Stock issuance and award            | 3,447,906         | 3,447            | 21,934,309                       |                       |   | 21,937,756            |
| Warrant exercise                    |                   |                  |                                  |                       |   | -                     |
| Deferred tax effect                 |                   |                  |                                  |                       |   | -                     |
| Foreign currency translation        |                   |                  |                                  |                       | (13,610,495)                                    | (13,610,495)          |
| Net loss                            |                   |                  |                                  | (5,694,699)           |   | (5,694,699)           |
| <b>BALANCE AT DECEMBER 31, 2018</b> | <u>51,484,444</u> | <u>\$ 51,484</u> | <u>\$ 254,989,657</u>            | <u>\$ (9,497,009)</u> | <u>\$ (19,921,258)</u>                          | <u>\$ 225,622,874</u> |

See notes to consolidated financial statements.

**KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

|  | Year Ended            |                       |                      |
|--|-----------------------|-----------------------|----------------------|
|  | December 31,<br>2018  | December 31,<br>2017  | December 31,<br>2016 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                       |                       |                       |                      |
| Net loss   | \$ (5,694,699)        | \$ (28,347,474)       | \$ (6,510,757)       |
| Adjustments to reconcile net income to net cash provided by operating activities   |                       |                       |                      |
| Depreciation and amortization  | 4,326,296             | 4,777,992             | 4,863,277            |
| Assets impairments   | 263,185               | 170,506               | (40,142)             |
| Allowance for doubtful accounts  | (213,809)             | 128,972               | -                    |
| Deferred taxes   | 4,815,774             | (5,448,015)           | 3,651,362            |
| Change in fair value of financial instruments                                      | -                     | -                     | (3,823,590)          |
| Share of loss after tax of JV Company  | 17,888,706            | 11,555,302            | 7,307,510            |
| Reserve for fixed assets   | (52,744)              | 451,503               | -                    |
| Change in fair value of contingent consideration                                   | (3,405,864)           | -                     | -                    |
| Stock compensation cost  | 285,609               | 5,191,307             | 14,913,212           |
| <b>Changes in operating assets and liabilities, net of effects of acquisition:</b> |                       |                       |                      |
| <b>(Increase) Decrease In:</b>   |                       |                       |                      |
| Accounts receivable  | (57,503,289)          | (5,821,522)           | (40,962,889)         |
| Deferred taxes assets  | 375                   | -                     | -                    |
| Notes receivable   | 483,778               | -                     | 1,383,605.00         |
| Notes receivable from JV Company and related party                                 | 6,231,669             | 8,068,968             | -                    |
| Inventories  | (5,243,388)           | (3,311,357)           | 4,952,792            |
| Other receivables and other assets   | (31,373,831)          | (1,243,552)           | (43,650,395)         |
| Due from employee  | 1,045                 | 10,127                | 41,529               |
| Advances to supplier and prepayments and prepaid expenses                          | (5,386,448)           | 23,107,334            | (9,209,955)          |
| Advances to suppliers-long term  | -                     | (5,941,692)           | -                    |
| Amount due from JV Company   | (95,442,739)          | (53,622,842)          | (111,996,250)        |
| Amount due from JV Company-Longterm  | 15,907,183            | (15,907,183)          | -                    |
| Due from related party   | 159,405               | 10,622,123            | 28,715,113           |
| <b>Increase (Decrease) In:</b>   |                       |                       |                      |
| Accounts payable   | 137,390,139           | 66,784,385            | 112,150,789          |
| Other payables and accrued liabilities   | 60,736,669            | 1,914,293             | (3,790,859)          |
| Notes payable  | (30,542,040)          | (13,297,993)          | (8,480,858)          |
| Customer deposits  | (104,047)             | 155,100               | (48,312)             |
| Income tax payable   | 822,422               | 1,221,012             | 1,008,274            |
| Deferred income  | (761,736)             | (4,431,765)           | -                    |
| <b>Net cash provided by (used in) operating activities</b>                         | <b>\$ 13,587,621</b>  | <b>\$ (3,214,471)</b> | <b>(49,526,543)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                       |                       |                       |                      |
| Purchases of property, plant and equipment, net                                    | (582,872)             | (760,253)             | (275,801)            |
| Purchases of land use rights and other intangible assets                           | (103,871)             | (416,361)             | (3,388)              |
| Acquisition of Jinhua An Kao (net of cash received)                                | (3,555,766)           | -                     | -                    |
| Acquisition of SC Autosports   | 486,954               | -                     | -                    |
| Purchases of construction in progress  | (418,755)             | (702,719)             | (6,001,664)          |
| Reimbursement of capitalize interests for construction in progress                 | 1,790,652             | -                     | -                    |
| Repayment of notes receivable  | -                     | -                     | 10,335,807           |
| Long Term Investment   | 1,436,217             | -                     | -                    |
| Short term investment  | -                     | 4,587,971             | (3,088,327)          |
| <b>Net cash (used in) provided by investing activities</b>                         | <b>\$ (947,441)</b>   | <b>\$ 2,708,638</b>   | <b>966,627</b>       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                       |                       |                       |                      |
| Proceeds from short-term bank loans  | 32,503,855            | 32,263,794            | 65,912,237           |
| Repayments of short-term bank loans  | (33,259,759)          | (35,667,772)          | (35,815,325)         |
| Repayments of long-term bank loans   | (302,361)             | -                     | -                    |
| Proceeds from notes payable  | 54,348,577            | 22,270,028            | 12,038,765           |
| Repayment of notes payable   | (58,588,036)          | (28,680,591)          | -                    |
| Warrant exercise   | -                     | -                     | 434,666              |
| <b>Net cash (used in) provided by financing activities</b>                         | <b>\$ (5,297,724)</b> | <b>\$ (9,814,541)</b> | <b>42,570,343</b>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b>    |                       |                       |                      |
| <b>CASH</b>  | <b>7,342,456</b>      | <b>(10,320,374)</b>   | <b>(5,989,573)</b>   |
| Effect of exchange rate changes on cash  | (1,099,881)           | 1,237,572             | (1,727,697)          |
| <b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR</b>          | <b>16,110,496</b>     | <b>25,193,298</b>     | <b>32,910,568</b>    |
| <b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD</b>              | <b>22,353,071</b>     | <b>16,110,496</b>     | <b>25,193,298</b>    |
| <b>SUPPLEMENTARY CASH FLOW INFORMATION</b>   |                       |                       |                      |
| Income taxes paid  | 2,056,670             | 1,448,523             | 2,598,846            |
| Interest paid  | 1,708,766             | 1,625,240             | 1,671,372            |

**SUPPLEMENTAL NON-CASH DISCLOSURES:**

|   |            |            |            |
|---|------------|------------|------------|
| Construction in progress transferred to Property, Plant and equipment                                     | 74,118,229 | -          | -          |
| Long term and short term Advances to suppliers transferred to Construction in progress                    | 31,301,325 | 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 from related parties          | 86,461,386 | 53,565,297 | 43,707,157 |
| Settlement of accounts receivables with notes receivable from unrelated parties                           | 60,543,404 | 5,868,902  | 15,052,339 |
| Settlement of other receivables with notes receivable from related parties                                | 34,015,662 | -          | -          |
| Assignment of notes receivable from unrelated parties to supplier to settle accounts payable              | 31,347,383 | 5,868,902  | 14,509,390 |
| Assignment of notes receivable from JV Company and related parties to supplier to settle accounts payable | 77,107,835 | 44,812,574 | 44,846,561 |
| Assignment of notes receivable from unrelated parties to supplier to settle other payable                 | 28,636,652 | -          | -          |
| Assignment of notes receivable from JV Company and related parties to supplier to settle other payable    | 34,242,433 | -          | -          |
| Settlement of accounts payable with notes payables  | 31,039,932 | 31,533,939 | 8,146,783  |
| Acquisition of Jinhua An Kao by stock   | 20,718,859 | -          | -          |
| Acquisition of SC Autosports by stock   | 756,664    | -          | -          |
| Replacement of notes payables with accounts payable   | 10,582,651 | -          | -          |
| Amount due from JV Company converted to investment in JV Company  | 82,393,493 | -          | -          |
| Reversal of construction in progress and accounts payable   | 8,029,198  | -          | -          |
| Construction in progress transferred back to prepayments  | -          | -          | 35,035,762 |
| Reclassification of overpaid accounts payable to advances to suppliers                                    | 16,826     | -          | -          |
| Deferred tax changed to other comprehensive income  | -          | 78,967     | -          |

See notes to consolidated financial statements.

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 as Stone Mountain Resources, Inc. It changed its name to Kandi Technologies, Corp. on August 13, 2007, and on December 21, 2012, it further changed its name to its current name. 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 ("China"), the Company is one of China's leading producers and manufacturers of electric vehicle ("EV") products (through the JV Company), EV parts, and off-road vehicles for sale in China and global markets. The Company conducts its primary business operations through its wholly-owned subsidiaries, Zhejiang Kandi Vehicles Co., Ltd. ("Kandi Vehicles") and Sportsman Country, LLC ("Sportsman Country") which changed its name to SC Autosports LLC ("SC Autosports") in August 2018, and the partially and wholly-owned subsidiaries of Kandi Vehicles.

The Company's organizational chart as of the date of this report is as follows:

□

## Operating Subsidiaries:

Pursuant to certain VIE (as defined below in this report) 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 Jinhua Kandi 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 an agreement with the shareholders of YongkangScrou Electric Co, Ltd. ("YongkangScrou"), the Company acquired 100% of 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. Currently, 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 a JV Company 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, Zhejiang Geely Holding Group, Ltd. (Geely Holding) transferred its equity in the JV Company to Geely Group (Ningbo) Ltd., a company wholly owned by Mr. Li Shufu, Chairman of the Board of Geely Holding. On May 23, 2018, in order to obtain its manufacturing license, and pursuant to a recent notice (FGBCY[2018] No.547) from the National Development and Reform Commission in China, the JV Company increased its registered capital by RMB 1.09 billion (approximately \$165 million), of which Kandi Vehicle increased its capital contribution to the JV Company by converting its loans to the JV Company, totaling RMB 545 million (approximately \$79 million) to registered capital in the JV Company. Geely Group, Ltd. ("Geely Group") became a new shareholder of the JV Company by investing RMB 545 million (approximately \$79 million). After this restructure, Kandi Vehicles, Geely Group and Geely Group (Ningbo) Ltd., each own 50%, 26.08%, and 23.92% of the equity in the JV Company, respectively.

In March 2013, Kandi Vehicles formed Kandi Electric Vehicles (Changxing) Co., Ltd. ("KandiChangxing") in the Changxing (National) Economic and Technological Development Zone. KandiChangxing 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 KandiChangxing to the JV Company. The Company, through its 50% ownership interest in the JV Company, owns an indirect 50% economic interest in KandiChangxing.

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") and other EV share programs. Kandi Vehicle had a 9.5% ownership interest in the Service Company. After various tests and thorough assessments in the last five years, the Company determined that a large sum of capital still needs to be invested in order to increase the size of EV share programs. After considering Geely Group's ability to grow the Service Company's business to be stronger and more expansive, and determining that the successful growth of the Service Company would have a positive impact on the development of the JV Company's business, Kandi Vehicle transferred its 9.5% ownership interest in the Service Company to Geely Group in June 2018.

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, through its 50% ownership interest in the JV Company, indirectly owns a 50% economic interest in Kandi Jinhua. In April 2017, Kandi Jinhua was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company.

In November 2013, Zhejiang Ji He Kang Electric Vehicle Sales Co., Ltd. (“Ji He Kang”) 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, through its 50% ownership interest in the JV Company, indirectly owns a 50% economic interest in JiHeKang. In April 2017, JiHeKang was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company.

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, through its 50% ownership interest in the JV Company, indirectly owns 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, through its 50% ownership interest in the JV Company, indirectly owns a 50% economic interest in Kandi Jiangsu. Kandi Jiangsu is mainly engaged in EV research and development, manufacturing, and sales. As of the date of this report, Kandi Jiangsu directly owns 100% of JiHeKang, JiHeKang Service Company, Liuchuang and KandiJinhua.

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, through its ownership of the JV Company, indirectly owns a 25% 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. In April 2017, JiHeKang Service Company was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company. The JV Company has a 100% ownership interest in the JiHeKang Service Company, and the Company, through the JV Company, indirectly owns a 50% economic interest in the JiHeKang Service Company.

In December 2015, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. Tianjin Branch (“JiHeKang Tianjin”) was formed by JiHeKang. JiHeKang Tianjin was engaged in the car sales business. JiHeKang Tianjin was dissolved in September 2018.

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. 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, through its 50% ownership interest in the JV Company, indirectly owns 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, through its 50% ownership interest in the JV Company, indirectly owns 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 into an agreement with the JV Company to acquire 100% of Changxing Maintenance for RMB 1,089,887 or approximately \$167,501. The transaction was completed in April 2018.

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, through its 50% ownership interest in the JV Company, indirectly owns 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, through its 50% ownership interest in the JV Company, indirectly owns 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 owns 100% of KandiJinhua, JiHeKang, and the JiHeKang Service Company. The Company, through its 50% ownership interest in the JV Company, indirectly owns a 50% economic interest in Kandi Jinhua, JiHeKang, and the JiHeKang Service Company.

In December 2017, Zhejiang Chang Dian Technology Co., Ltd. (“Zhejiang Chang Dian”) was formed by the JV Company. Zhejiang Chang Dian is primarily engaged in the battery replacement business. Zhejiang Chang Dian is 100% owned by the JV Company, and the Company, through its 50% ownership interest in the JV Company, indirectly owns a 50% economic interest in Zhejiang Chang Dian.

In December 2017, Kandi Vehicles and the sole shareholder of Jinhua An Kao Power Technology Co., Ltd. (“Jinhua An Kao”) entered into a Share Transfer Agreement and a Supplementary Agreement, pursuant to which Kandi Vehicles acquired Jinhua An Kao. The two agreements were signed on December 12, 2017 and the closing took place on January 3, 2018. Kandi Vehicles acquired 100% of the equity interests of Jinhua An Kao for a purchase price of approximately RMB 25.93 million (approximately \$4 million) in cash. In addition, pursuant to the Supplementary Agreement, the Company issued a total of 2,959,837 shares of restrictive stock, or 6.2% of the Company’s total outstanding shares of the common stock to the shareholder of Jinhua An Kao, and may be required to pay future consideration up to an additional 2,959,837 shares of common stock, which are being held in escrow, to be released contingent upon the achievement of certain net income-based milestones in the next three years. The Supplementary Agreement sets forth the terms and conditions of the issuance of these shares, including a provision that gives the Company the voting rights of the make good shares until conditions for vesting those shares are satisfied.

In March 2018, Jiangsu Gu Xiang New Energy Technology Co., Ltd. (“Jiangsu Gu Xiang”) was formed by Zhejiang Chang Dian. Jiangsu Gu Xiang is primarily engaged in technical research, development, services and consultation of new energy vehicles, battery replacement and maintenance, and other business.

In April 2018, Zhejiang Chang Dian Technology Co., Ltd. Hangzhou Tonglu Branch (“Chang Dian Tonglu”) was formed by Zhejiang Chang Dian. Chang Dian Tonglu is primarily engaged in the battery replacement business.

In April 2018, Zhejiang Chang Dian Technology Co., Ltd. Changxing Branch (“Chang Dian Changxing”) was formed by Zhejiang Chang Dian. Chang Dian Changxing is primarily engaged in the battery replacement business.

On May 31, 2018, the Company entered into a Membership Interests Transfer Agreement (the “Transfer Agreement”) with the two members of Sportsman Country, LLC (“Sportsman Country”) under which the Company acquired 100% of the ownership of Sportsman Country. Sportsman Country is a Dallas based sales company primarily engaged in the wholesale of off-road vehicle products, with a small percentage of business in off-road vehicle parts wholesale and retail. According to the terms of the Transfer Agreement, the Company transferred \$10.0 million worth of restricted shares to acquire 100% of the membership interests of Sportsman Country, of which the Company was required to issue \$1.0 million worth of corresponding restricted shares within 30 days from the signing date of the Transfer Agreement, and the remaining \$9.0 million worth of corresponding restricted shares to be released from escrow based on Sportsman Country’s pre-tax profit performance over the course of the following three years. The transaction closed in July 2018. Sportsman Country subsequently changed its name to SC Autosports LLC (“SC Autosports”) in August of 2018.

On March 4, 2019, in order to build a logistics network composed of suppliers, manufacturers, warehouses, distribution centers and channel providers, meeting the needs of production and operation, and optimizing the cost of supply chain system, Zhejiang Kandi Supply Chain Management Co., Ltd. (“Kandi Supply Chain”) was formed. Kandi Vehicle has a 10% ownership interest in Kandi Supply Chain, the remaining 90% are owned by unrelated parties of Kandi Vehicle.



The Company's primary business operations are designing, developing, manufacturing and commercializing EV products (through the JV Company), 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, and is actively pursuing expansion in the Chinese and international markets, especially the U.S. market.

#### NOTE 2 - LIQUIDITY

The Company had a working capital of \$2,526,911 as of December 31, 2018, a decrease of \$51,180,991 from a working capital surplus of \$53,707,902 as of December 31, 2017.

Although the Company expects that most of its outstanding trade receivables from 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 progress of the 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 twelve 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 stems from its need to fund working capital requirements of the Company's businesses, capital expenditures and general operational purposes, including debt repayment. The Company has incurred losses for the past three 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 and the Company believes that short-term bank loans will remain available on normal trade terms if needed. In 2019, management will take measures to grow the business and further improve the Company's liquidity. The Company acknowledges that it continues to face a challenging competitive environment and expects to take actions that 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, 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 Company's consolidated financial statements reflect the accounts of the Company and its ownership interests 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;
- (3) 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;
- (5) Kandi Hainan, a subsidiary, 10% owned by Kandi New Energy and 90% owned by Kandi Vehicles; and
- (6) Jinhua An Kao, a wholly-owned subsidiary of Kandi Vehicles.
- (7) SC Autosports, a wholly-owned subsidiary of the Company.

#### **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) KandiChangxing, 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 KandiChangxing;
- (3) KandiJinhua, a wholly-owned direct subsidiary of 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 KandiJinhua;

- (4) JiHeKang, a wholly-owned direct subsidiary of 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 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 direct subsidiary of 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 the JiHeKang Service Company.
- (8) Tianjin BoHaiWan, a wholly-owned direct subsidiary of 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 Tianjin BoHaiWan;
- (9) Liuchuang, a wholly-owned direct subsidiary of 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 Liuchuang;
- (10) 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;
- (11) Guangdong JiHeKang, a wholly-owned direct subsidiary of 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; and
- (12) Zhejiang Chang Dian, 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 Zhejiang Chang Dian.
- (13) Chang Dian Tonglu, branch of Zhejiang Chang Dian, 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 Chang Dian Tonglu.
- (14) Chang Dian Changxing, a branch of Zhejiang Chang Dian, 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 Chang Dian Changxing.
- (15) Jiangsu Gu Xiang, a wholly-owned subsidiary of Zhejiang Chang Dian, 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 Gu Xiang.

All intra-entity profits and losses with regard 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 restrictions. 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 were measured and disclosed at fair value, was \$12,787,619 and \$28,075,945 at December 31, 2018 and December 31, 2017, respectively.

Contingent consideration related to the acquisitions of Jinhua An Kao and SC Autosports, which is accounted for as liabilities, are measured at each reporting date for their fair value using Level 3 inputs. The fair value of contingent consideration was \$7,256,000 and \$0 at December 31, 2018 and December 31, 2017, respectively. Also see Note 26.

(c) Cash and Cash Equivalents

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

As of December 31, 2018 and December 31, 2017, the Company's restricted cash was \$6,690,870 and \$11,218,688, respectively.

(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. If accounts receivable previously written off is recovered in a later period or when facts subsequently become available to indicate that the amount provided as an allowance for doubtful accounts was incorrect, an adjustment is made to restate allowance for doubtful accounts.

As of December 31, 2018 and December 31, 2017, credit terms with the Company's customers were typically 180 to 360 days after delivery. As of December 31, 2018 and 2017, the Company had a \$120,010 and \$133,930 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.

(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 3.50% to 4.50% annually. As of December 31, 2018 and December 31, 2017, the Company had notes receivable from unrelated parties of \$ 72,712 and \$0, respectively, which notes receivable typically mature within six months. As of December 31, 2018 and December 31, 2017, the Company had notes receivable from JV Company and other related parties of \$3,861,032 and \$1,137,289, 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, 2018, the Company had made a total advance payments of RMB852 million (approximately \$123 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 \$0 left in Advance to Suppliers in current assets related to the purchases from Nanjing Shangtong as of December 31, 2018.

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. As of December 31, 2018, \$2,854,673 of interest expenses previously capitalized for CIP have been reimbursed by the government.

(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

The Company adopted ASC Topic 606 Revenue from Contracts with Customers with a date of the initial application of January 1, 2018 using the modified retrospective method. As a result, the Company has changed its accounting policy for revenue recognition. The impact of the adoption of ASC Topic 606 on the Company's consolidated financial statements is not material.

The Company recognizes revenue when goods or services are transferred to customers in an amount that reflects the consideration which it expects to receive in exchange for those goods or services. In determining when and how revenue is recognized from contracts with customers, the Company performs the following five-step analysis: (i) identification of contract with customer; (ii) determination of performance obligations; (iii) measurement of the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company generates revenue through EV parts and off-road vehicles. The revenue is recognized at a point in time once the Company has determined that the customer has obtained control over the product. Control is typically deemed to have been transferred to the customer when the performance obligation is fulfilled, usually at the time of delivery, at the net sales price (transaction price). Estimates of variable consideration, such as volume discounts and rebates, are determined, reviewed and revised periodically by management. The amount of variable consideration recognize is limited and is not likely to be reversed. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. Shipping and handling costs for product shipments occur prior to the customer obtaining control of the goods are accounted for as fulfillment costs rather than separate performance obligations and recorded as sales and marketing expenses.

The Company's contracts are predominantly short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC Topic 606 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

Receivables are recorded when the Company has an unconditional right to consideration.

See Note 24 "Segment Reporting" for disaggregation of revenue by reporting segments. The Company believes this disaggregation best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

#### (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 \$10,084,378, \$27,628,085 and \$26,504,650 for the years ended December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, \$17,787,445, \$5,913,554 and \$25,913,540, 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.oanda.com>

|                                    | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|------------------------------------|------------------------------|------------------------------|------------------------------|
| Period end RMB : USD exchange rate | 6.8764                       | 6.5067                       | 6.94585                      |
| Average RMB : USD exchange rate    | 6.6146                       | 6.7568                       | 6.64520                      |

(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, 2018, 2017 and 2016 were \$1,586,926 net of a reversal for forfeited stock options of \$2,644,877, \$3,763,282 and \$14,867,987, 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.

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, 2018 and December 31, 2017, the Company determined that its goodwill was not impaired.

(u) Intangible Assets

Intangible assets consist of patent, trade names and customer relations associated with the purchase price from the allocation of Yongkang Scrou and Jinhua An Kao. Such assets are being amortized over their estimated useful lives. Intangible assets were amortized as of December 31, 2018. The amortization expenses for intangible assets were \$649,089, \$82,095 and \$82,095 for the years ended December 31, 2018, 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 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.

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 in 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.

(x) Reclassification

The Company adopted ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash" in the first quarter of 2018. Certain amounts included in the 2017 and 2016 condensed consolidated statement of cash flows have been reclassified to conform to the 2018 financial statement presentation as follows:

The Company has included restricted cash of \$12,957,377 and \$11,218,688, respectively, with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows for the year ended December 31, 2017. As a result, the total amount at the beginning of the period on the statement of cash flows for the year ended December 31, 2017 has changed from \$12,235,921 to \$25,193,298; the total amount at the end of the period on the statement of cash flows for the year ended December 31, 2017 has changed from \$4,891,808 to \$ 16,110,496; and effect of exchange rate changes on the statement of cash of cash flows for the year ended December 31, 2017 has changed from \$459,780 to \$1,237,572.

The Company has included restricted cash of \$16,172,009 and \$12,957,377, respectively, with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows for the year ended December 31, 2016. As a result, the total amount at the beginning of the period on the statement of cash flows for the year ended December 31, 2016 has changed from \$16,738,559 to \$ 32,910,568; the total amount at the end of the period on the statement of cash flows for the year ended December 31, 2016 has changed from \$12,235,921 to \$25,193,298; and effect of exchange rate changes on the statement of cash of cash flows for the year ended December 31, 2016 has changed from \$(770,333) to \$(1,727,697).

The Company has eliminated the line item of restricted cash of \$2,516,481 from the financing activities section on the statement of cash flows for the year ended December 31, 2017. As a result, net cash used in financing activities of \$7,298,060 on the statement of cash flows for the year ended December 31, 2017 has changed to net cash used in financing activities of \$9,814,541. Net decrease in cash and cash equivalents and restricted cash of \$7,803,893 on the statement of cash flows for the year ended December 31, 2017 has changed to net decrease in cash and cash equivalents and restricted cash of \$10,320,374.

The Company has eliminated the line item of restricted cash of \$2,257,268 from the financing activities section on the statement of cash flows for the year ended December 31, 2016. As a result, net cash provided by financing activities of \$44,827,611 on the statement of cash flows for the year ended December 31, 2016 has changed to net cash provided by financing activities of \$42,570,343. Net decrease in cash and cash equivalents and restricted cash of \$3,732,305 on the statement of cash flows for the year ended December 31, 2016 has changed to net decrease in cash and cash equivalents and restricted cash of \$5,989,573.

#### 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 May 2014, the FASB issued a new standard on revenue recognition related to contracts with customers. This standard supersedes nearly all existing revenue recognition guidance and involves a five-step principles-based approach to recognizing revenue. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive. The new standard also require additional qualitative and quantitative about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. The Company adopted this standard in the first quarter of 2018 using the modified retrospective approach. The impact of adoption on its Condensed Consolidated Financial Statements for any period presented is not material.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." This ASU amends existing guidance to require that deferred income tax assets and liabilities be classified as non-current in a classified balance sheet, and eliminates the prior guidance which required an entity to separate deferred tax assets and liabilities into a current amount and a non-current amount in a classified balance sheet. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Condensed Consolidated Financial Statements for any period presented is not material.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments", to require financial assets carried at amortized cost to be presented at the net amount expected to be collected based on historical experience, current conditions and forecasts. Subsequently, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, to clarify that receivables arising from operating leases are within the scope of lease accounting standards. The ASUs are effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASUs is modified retrospective. We are currently obtaining an understanding of the ASUs and plan to adopt them on January 1, 2020.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory, which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Condensed Consolidated Financial Statements for any period presented is not material.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash," ("ASU 2016-18"). This ASU requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this standard in the first quarter of 2018. The impact of adoption on its Condensed Consolidated Financial Statements for any period presented is not material.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Condensed Consolidated Financial Statements for any period presented is not material.

In January 2017, the FASB issued ASU No. 2017-04 (Topic 350) Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment, which removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This ASU will be applied on a prospective basis and is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company does not expect the adoption to have a material impact on the Consolidated Financial Statements.

In February 2018, the FASB released ASU 2018-2, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This standard update addresses a specific consequence of the Tax Cuts and Jobs Act ("U.S. tax reform") and allows a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from U.S. tax reform. Consequently, the update eliminates the stranded tax effects that were created as a result of the historical U.S. federal corporate income tax rate to the newly enacted U.S. federal corporate income tax rate. The Company is required to adopt this standard in the first quarter of fiscal year 2020, with early adoption permitted. The amendments in this update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has finished the evaluation and determined there is no impact of on its Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements under ASC 820. This ASU is to be applied on a prospective basis for certain modified or new disclosure requirements, and all other amendments in the standard are to be applied on a retrospective basis. The new standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

#### NOTE 8 - CONCENTRATIONS

##### (a) Customers

For the years ended December 31, 2018, 2017 and 2016, 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 December 31, 2018 | Year Ended December 31, 2017 | Year Ended December 31, 2016 | December 31, 2018 | December 31, 2017  | December 31, 2016  |
| Kandi Electric Vehicles Group Co., Ltd. and its subsidiaries | 43%                          | 90% <sup>(1)</sup>           | 60% <sup>(2)</sup>           | 66%               | 74% <sup>(3)</sup> | 70% <sup>(4)</sup> |
| Jinhua Chaoneng Automobile Sales Co. Ltd.                    | 33%                          | 4%                           | 30%                          | 22%               | 23%                | 19%                |

(1) Including 89% of Kandi Electric Vehicles Group Co., Ltd. as disclosed in 2017 10K Major Customer

(2) Including 59% of Kandi Electric Vehicles Group Co., Ltd. as disclosed in 2016 10K Major Customer

(3) Including 71% of Kandi Electric Vehicles Group Co., Ltd. as disclosed in 2017 10K Major Customer

(4) Including 53% of Kandi Electric Vehicles Group Co., Ltd. as disclosed in 2016 10K Major Customer

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

For the years ended December 31, 2018, 2017 and 2016, 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 December 31, 2018 | Year Ended December 31, 2017 | Year Ended December 31, 2016 | December 31, 2018 | December 31, 2017 | December 31, 2016 |
| Jiangsu Tian Peng power supply Co., Ltd. | 23%                          | -                            | -                            | 20%               | -                 | -                 |
| Shenzhen BiKe Power Battery Co., Ltd.    | 19%                          | -                            | -                            | 14%               | -                 | -                 |

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 and warrants (using treasury stock method). For the years ended December 31, 2018, 2017 and 2016, 3,900,000, 4,233,334 and 4,566,667 potentially dilutive shares were excluded from the calculation of dilutive earnings per share because their effect would have been anti-dilutive.

The following is the calculation of earnings per share for the years ended December 31, 2018, 2017 and 2016:

|   | Year Ended December 31, |                 |                |
|---|-------------------------|-----------------|----------------|
|   | 2018                    | 2017            | 2016           |
| Net loss  | \$ (5,694,699)          | \$ (28,347,474) | \$ (6,510,757) |
| Weighted average shares used in basic computation   | 51,188,647              | 47,943,830      | 47,447,665     |
| Dilutive shares                                     | -                       | -               | -              |
| Weighted average shares used in diluted computation | 51,188,647              | 47,943,830      | 47,447,665     |
| loss per share:                                     |                         |                 |                |
| Basic   | \$ (0.11)               | \$ (0.59)       | \$ (0.14)      |
| Diluted   | \$ (0.11)               | \$ (0.59)       | \$ (0.14)      |

NOTE 10 - ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

|                                       | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---------------------------------------|------------------------------|------------------------------|
| Accounts receivable                   | \$ 34,394,738                | \$ 34,531,788                |
| Less: allowance for doubtful accounts | (120,010)                    | (133,930)                    |
| Accounts receivable, net              | <u>\$ 34,274,728</u>         | <u>\$ 34,397,858</u>         |

NOTE 11 - INVENTORIES

Inventories are summarized as follows:

|  | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|------------------------------|------------------------------|
| Raw material                                   | \$ 7,741,264                 | \$ 7,256,498                 |
| Work-in-progress                               | 1,571,179                    | 2,831,678                    |
| Finished goods                                 | 13,526,126                   | 6,512,537                    |
| Total inventories                              | <u>22,838,569</u>            | <u>16,600,713</u>            |
| Less: provision for slowing moving inventories | (840,701)                    | (620,919)                    |
| Inventories, net                               | <u>\$ 21,997,868</u>         | <u>\$ 15,979,794</u>         |



NOTE 12 - NOTES RECEIVABLE

Notes receivable from unrelated parties as of December 31, 2018 and December 31, 2017, are summarized as follows:

|                            | <u>December 31,</u><br><u>2018</u> | <u>December 31,</u><br><u>2017</u> |
|----------------------------|------------------------------------|------------------------------------|
| Notes receivable as below: |                                    |                                    |
| Bank acceptance notes      | 72,712                             | -                                  |
| Notes receivable           | <u>\$ 72,712</u>                   | <u>\$ -</u>                        |

Details of notes receivable from unrelated parties as of December 31, 2018, are as set forth below:

| <u>Index</u> | <u>Amount (\$)</u> | <u>Counter party</u>                 | <u>Relationship</u> | <u>Nature</u>      | <u>Manner of settlement</u> |
|--------------|--------------------|--------------------------------------|---------------------|--------------------|-----------------------------|
| 1            | 72,712             | Shaanxi Hua Dao Auto Sales Co., Ltd. | Third Party         | Payments for sales | Not due                     |

Notes Receivable from JV Company and related party for the years ended December 31, 2018 and 2017 were summarized as follows:

|                            | <u>December 31,</u><br><u>2018</u> | <u>December 31,</u><br><u>2017</u> |
|----------------------------|------------------------------------|------------------------------------|
| Notes receivable as below: |                                    |                                    |
| Bank acceptance notes      | 3,861,032                          | 1,137,289                          |
| Notes receivable           | <u>\$ 3,861,032</u>                | <u>\$ 1,137,289</u>                |

Details of Notes Receivable from JV Company and related party as of December 31, 2018 were as follows:

| <u>Index</u> | <u>Amount (\$)</u> | <u>Counter party</u>                    | <u>Relationship</u>          | <u>Nature</u>      | <u>Manner of settlement</u> |
|--------------|--------------------|---|------------------------------|--------------------|-----------------------------|
| 1            | 3,861,032          | Kandi Electric Vehicles Group Co., Ltd. | Joint Venture of the Company | Payments for sales | Not due                     |

Details of Notes Receivable from JV Company and related party as of December 31, 2017 were as follows:

| <u>Index</u> | <u>Amount (\$)</u> | <u>Counter party</u>                    | <u>Relationship</u>          | <u>Nature</u>      | <u>Manner of settlement</u> |
|--------------|--------------------|---|------------------------------|--------------------|-----------------------------|
| 1            | 922,126            | Kandi Electric Vehicles Group Co., Ltd. | Joint Venture of the Company | Payments for sales | Not due                     |
| 2            | 153,688            | Kandi Jiangsu                           | Subsidiary of the JV Company | Payments for sales | Not due                     |
| 3            | 61,475             | Kandi Changxing                         | Subsidiary of the JV Company | Payments for sales | Not due                     |

NOTE 13 - PROPERTY, PLANT AND EQUIPMENT

Property, plants and equipment as of December 31, 2018 and 2017 consisted of the following:

|   | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|------------------------------|------------------------------|
| At cost:  |                              |                              |
| Buildings                                       | \$ 30,638,417                | \$ 13,853,340                |
| Machinery and equipment                         | 63,398,627                   | 7,916,562                    |
| Office equipment                                | 852,172                      | 532,774                      |
| Motor vehicles and other transport equipment    | 418,476                      | 382,866                      |
| Molds and others                                | 26,849,806                   | 28,659,714                   |
|   | <u>122,157,498</u>           | <u>51,345,256</u>            |
| Less: Accumulated depreciation                  |                              |                              |
| Buildings                                       | \$ (5,019,075)               | \$ (4,683,040)               |
| Machinery and equipment                         | (8,442,940)                  | (7,216,464)                  |
| Office equipment                                | (393,893)                    | (305,367)                    |
| Motor vehicles and other transport equipment    | (325,917)                    | (310,631)                    |
| Molds and others                                | (25,486,100)                 | (26,306,306)                 |
|   | <u>(39,667,925)</u>          | <u>(38,821,808)</u>          |
| Less: provision for impairment for fixed assets | (443,650)                    | (522,477)                    |
| Plant and equipment, net                        | <u>\$ 82,045,923</u>         | <u>\$ 12,000,971</u>         |

As of December 31, 2018 and 2017, the net book value of property, plant and equipment pledged as collateral for the Company's bank loans were \$8,105,419 and \$9,019,993, respectively.

Depreciation expenses for the years ended December 31, 2018, 2017 and 2016 were \$3,516,064, \$4,371,561 and \$4,448,010, respectively.

NOTE 14 - LAND USE RIGHTS

The Company's land use rights consist of the following:

|                                | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--------------------------------|------------------------------|------------------------------|
| Cost of land use rights        | \$ 14,925,518                | \$ 15,676,450                |
| Less: Accumulated amortization | (3,175,790)                  | (3,010,403)                  |
| Land use rights, net           | <u>\$ 11,749,728</u>         | <u>\$ 12,666,047</u>         |

As of December 31, 2018 and 2017, the net book value of the land use rights pledged as collateral for the Company's bank loans were \$7,756,253 and \$8,993,913 respectively. Also see Note 16.

The amortization expense for the years ended December 31, 2018, 2017 and 2016 were \$ 348,533, \$324,336 and \$333,171, respectively.

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

|              |                      |
|--------------|----------------------|
| 2019         | \$ 348,533           |
| 2020         | 348,533              |
| 2021         | 348,533              |
| 2022         | 348,533              |
| 2023         | 348,533              |
| Thereafter   | 10,007,063           |
| <b>Total</b> | <b>\$ 11,749,728</b> |

#### NOTE 15 - CONSTRUCTION -IN-PROGRESS

##### Hainan Facility

In April 2013, the Company signed an agreement with the Wanning city government in Hainan Province to invest a total of RMB 1 billion to establish a factory in Wanning to manufacture 100,000 EV products annually. In January 2016, the Hainan Province government implemented a development plan to centralize manufacturing in certain designated industry parks. As a result, the Wanning facility was relocated from Wanning city to the Haikou city high-tech zone. Based on the agreement with the government, all of the expenses and lost assets resulting from the relocation were compensated for by the local government. As a result of the relocation, the contracts to build the manufacturing facility had to be revised in terms of total contract amount, technical requirements, completion milestones and others for the new construction site in Haikou. Currently, the Hainan facility's main project including manufacturing plant and office, main manufacturing equipment and facilities has been completed and the Company has transferred associated construction-in-progress to fixed assets in 2018.

No depreciation is provided for CIP until such time as the facility is completed and placed into operation.

As of December 31, 2018 and December 31, 2017, the Company's CIP were \$0 and \$53,083,925, respectively.

All interest expenses previously capitalized for CIP were reimbursed by the government. There was no interest expense capitalized for CIP for the year ended December 31, 2018.

#### NOTE 16 - SHORT -TERM AND LONG-TERM BANK LOANS

Short-term loans are summarized as follows:

|   | <u>December 31,</u><br><u>2018</u> | <u>December 31,</u><br><u>2017</u> |
|---|------------------------------------|------------------------------------|
| <b>Loans from China Ever-bright Bank</b>  |                                    |                                    |
| Interest rate 5.22% per annum, paid off on April 25, 2018, secured by the assets of Kandi Vehicle, guaranteed by Mr. Hu Xiaoming and his wife, also guaranteed by the Company's subsidiaries. See also Note 13 and Note 14. | -                                  | 10,758,141                         |
| Interest rate 5.655% per annum, due on April 25, 2019, secured by the assets of Kandi Vehicle, guaranteed by Mr. Hu Xiaoming and his wife, also guaranteed by company's subsidiaries. Also see Note 13 and Note 14.         | 10,179,745                         |                                    |
| <b>Loans from Hangzhou Bank</b>   |                                    |                                    |
| Interest rate 4.79% per annum, paid off on October 15, 2018, secured by the assets of Kandi Vehicle. Also see Note 13 and Note 14.  | -                                  | 7,499,962                          |
| Interest rate 5.66% per annum, due on October 14, 2019, secured by the assets of Kandi Vehicle. Also see Note 13 and Note 14.   | 7,096,737                          |                                    |
| Interest rate 4.79% per annum, paid off on July 4, 2018, secured by the assets of Kandi Vehicle. Also see Note 13 and Note 14.  | -                                  | 11,096,255                         |
| Interest rate 5.66% per annum, due on July 1, 2019, secured by the assets of Kandi Vehicle. Also see Note 13 and Note 14.   | 5,816,997                          | -                                  |
| Interest rate 5.66% per annum, due on July 4, 2019, secured by the assets of Kandi Vehicle. Also see Note 13 and Note 14.   | 4,682,683                          | -                                  |
| Interest rate 4.35% per annum, paid off on March 26, 2018, secured by the assets of Kandi Vehicle. Also see Note 13 and Note 14.  | -                                  | 3,688,506                          |
| Interest rate 5.66% per annum, due March 25, 2019, secured by the assets of Kandi Vehicle. Also see Note 13 and Note 14.  | 2,763,074                          | -                                  |
|   | <u>\$ 30,539,236</u>               | <u>\$ 33,042,864</u>               |

Long-term loan is summarized as follows:

|   | <u>December 31,</u><br><u>2018</u> | <u>December 31,</u><br><u>2017</u> |
|---|------------------------------------|------------------------------------|
| <b>Loans from Haikou Rural Credit Cooperative</b>   |                                    |                                    |
| Interest rate 7% per annum, due on December 12, 2021, guaranteed by Kandi Vehicle and Kandi New Energy. | 28,794,136                         | 30,737,547                         |
|   | <u>\$ 28,794,136</u>               | <u>30,737,547</u>                  |

The interest expense of the short-term and long-term bank loans for the years ended December 31, 2018, 2017 and 2016 were \$ 1,708,766, \$1,525,585 and \$1,831,667, respectively.

As of December 31, 2018, the aggregate amount of short-term loans that was guaranteed by various third parties was \$0.

#### NOTE 17 – NOTES PAYABLE

By issuing bank notes payable rather than paying cash to suppliers, the Company can defer payments until the bank notes payable are due. Depending on bank requirements, the Company may need to deposit restricted cash in banks to back up the bank notes payable, while the restricted cash deposited in the banks will generate interest income.

A bank acceptance note is a promised future payment, or time draft, which is accepted and guaranteed by a bank and drawn on a deposit at the bank. The banker's acceptance specifies the amount of the funds, the date, and the person to which the payment is due.

After acceptance, the draft becomes an unconditional liability of the bank, but the holder of the draft can sell (exchange) it for cash at a discount to a buyer who is willing to wait until the maturity date for the funds in the deposit. \$6,440,870 and \$11,218,688 were held as collateral for the notes payable as of December 31, 2018, and December 31, 2017, respectively.

As is common business practice in the PRC, the Company issues notes payable to its suppliers as settlement for accounts payable.

The Company's notes payable also includes borrowing from third parties.

Notes payable for December 31, 2018 and 2017 were summarized as follows:

|                                     | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-------------------------------------|------------------------------|------------------------------|
| <u>Bank acceptance notes:</u>       |                              |                              |
| Due January 4, 2018                 | \$ -                         | \$ 4,987,167                 |
| Due April 19, 2018                  | -                            | 230,532                      |
| Due May 6, 2018                     | -                            | 1,168,027                    |
| Due June 18, 2018                   | -                            | 2,305,316                    |
| Due June 21, 2018                   | -                            | 376,019                      |
| Due June 25, 2018                   | -                            | 153,688                      |
| Due June 27, 2018                   | -                            | 76,844                       |
| Due June 29, 2018                   | -                            | 2,382,160                    |
| Due January 9, 2019                 | 872,550                      | -                            |
| Due January 11, 2019                | 261,765                      | -                            |
| Due January 12, 2019                | 1,454,249                    | -                            |
| Due February 21, 2019               | 72,712                       | -                            |
| Due February 28, 2019               | 872,550                      | -                            |
| Due March 10, 2019                  | 436,275                      | -                            |
| Due March 20, 2019                  | 290,850                      | -                            |
| Due April 11, 2019                  | 72,712                       | -                            |
| Due May 1, 2019                     | 2,908,499                    | -                            |
| Due May 2, 2019                     | 1,089,233                    | -                            |
| Due May 7, 2019                     | 436,275                      | -                            |
| <u>Commercial acceptance notes:</u> |                              |                              |
| Due March 29, 2019                  | 2,763,074                    | 10,758,140                   |
| <u>Other Notes Payable:</u>         |                              |                              |
| Due May 6, 2019                     | 1,256,875                    | 5,638,052                    |
| Total                               | <u>\$ 12,787,619</u>         | <u>\$ 28,075,945</u>         |

## NOTE 18 – TAXES

### (a) Corporation Income Tax

Pursuant to the tax laws and regulations of the PRC, the Company's applicable corporate income tax ("CIT") rate is 25%. However, Kandi Vehicles qualifies as a High and New Technology Enterprise ("HNTE") company in the PRC, and is entitled to pay a reduced income tax rate of 15% for the years presented. An entity may re-apply for an HNTE certificate when the prior certificate expires. Historically, Kandi Vehicles has successfully re-applied for such certificates when the its prior certificates expired. The applicable CIT rate of each of the Company's four other subsidiaries, Kandi New Energy, Yongkang Scrou, Jinhua An Kao and Kandi Hainan, the JV Company and its subsidiaries, and the Service Company is 25%.

The Company's final effective tax rate for December 31, 2018, 2017 and 2016 was a tax expense of 374.30% on a reported income before taxes of approximately \$2.1 million, a tax benefit of 10.32% on a reported loss before taxes of approximately \$31.6 million and a tax expense of 11.69% on a reported loss before taxes of approximately \$5.8 million, respectively. The effective tax rates for each of the periods mentioned above are disclosed in the summary table of income tax expenses for December 31, 2018, 2017 and 2016.

Effective January 1, 2007, the Company adopted the guidance in ASC 740 related to uncertain tax positions. The guidance addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2018, the Company did not have any liability for unrecognized tax benefits. The Company files income tax returns with the U.S. Internal Revenue Services ("IRS") and those states where the Company has operations. The Company is subject to U.S. federal or state income tax examinations by the IRS and relevant state tax authorities for years after 2006. During the periods open to examination, the Company has net operating loss carry forwards ("NOLs") for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs may be utilized in future periods, they remain subject to examination. The Company also files certain tax returns in the PRC. As of December 31, 2018, the Company was not aware of any pending income tax examinations by U.S. or PRC tax authorities. The Company records interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2018 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 year ended December 31, 2018 due to a net operating loss for the U.S. companies as a whole in 2018 and an accumulated net operating loss carry forward from prior years in the United States.

As of December 31, 2018 and December 31, 2017, we had unrecognized tax benefits of \$0 million and \$12.2, respectively, for various federal, foreign, and state income tax matters. Unrecognized tax benefits decreased by \$12.2 million. After considering valuation allowance, none of the unrecognized tax benefits, if recognized, would affect our effective tax as of December 31, 2018 and December 31, 2017. These unrecognized tax benefits are presented on the accompanying consolidated balance sheets net of the tax effects of net operating loss carry forwards, which are offset by valuation allowance.

Our unrecognized tax benefit activity for fiscal 2018, 2017 and 2016 was as follows:

|  | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|--|------------------------------|------------------------------|------------------------------|
| Beginning balances   | \$ 12,166,810                | \$ -                         | \$ -                         |
| Increases related to tax positions taken during a prior year     | -                            | 11,376,521                   | -                            |
| Decreases related to tax positions taken during a prior year     | (12,166,810)                 | -                            | -                            |
| Increases related to tax positions taken during the current year | -                            | 790,289                      | -                            |
| Ending balances  | <u>\$ -</u>                  | <u>\$ 12,166,810</u>         | <u>\$ -</u>                  |

Income tax expenses for the year ended December 31, 2018, 2017 and 2016 are summarized as follows:

|                                  | <b>For Year Ended<br/>December 31,</b> |                       |                   |
|----------------------------------|--|-----------------------|-------------------|
|                                  | <b>2018</b>                            | <b>2017</b>           | <b>2016</b>       |
| Current:                         |  |                       |                   |
| Provision for CIT                | \$ 2,954,980                           | \$ 2,184,985          | \$ 601,212        |
| Provision for Federal Income Tax | -                                      | -                     | -                 |
| Deferred:                        |  |                       |                   |
| Provision for CIT                | 4,815,774                              | (5,448,015)           | 80,334            |
| Provision for Federal Income Tax | -                                      | -                     | -                 |
| Income tax expense (benefit)     | <u>\$ 7,770,754</u>                    | <u>\$ (3,263,030)</u> | <u>\$ 681,546</u> |

The reconciliation of taxes at the PRC statutory rate (25% in 2018 and 2017) to our provision for income taxes for the years ended December 31, 2018 and 2017 was as follows:

|  | For Year Ended<br>December 31, |                       |                   |
|--|--------------------------------|-----------------------|-------------------|
|  | 2018                           | 2017                  | 2016              |
| Expected taxation at PRC statutory tax rate              | \$ 519,014                     | \$ (7,902,626)        | \$ (1,457,303)    |
| Effect of differing tax rates in different jurisdictions | 292                            | 242,375               | (1,403,077)       |
| Tax except income  | (1,300,212)                    | -                     | -                 |
| Non-deductible expenses <sup>(1)</sup>                   | 2,683,306                      | 1,735,581             | 1,103,158         |
| Research and development super-deduction                 | (487,725)                      | (105,186)             | (43,826)          |
| Under-accrued EIT for previous years                     | 171,623                        | 267,574               | (2,727,454)       |
| Effect of PRC preferential tax rates                     | 607,069                        | 1,277,678             | -                 |
| Addition to valuation allowance                          | 5,793,368                      | 1,271,728             | 5,301,677         |
| Other  | (215,981)                      | (50,154)              | (91,629)          |
| Income tax (benefit) expense                             | <u>\$ 7,770,754</u>            | <u>\$ (3,263,030)</u> | <u>\$ 681,546</u> |

(1) It's mainly due to share of loss in JV Company and its subsidiaries.

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities as of December 31, 2018 and December 31, 2017 are summarized as follows:

|  | December 31,<br>2018  | December 31,<br>2017 |
|--|-----------------------|----------------------|
| Deferred tax assets:   |                       |                      |
| Accruals and reserves  | \$ 8,204              | \$ 192,046           |
| Tangible   | 113,767               | 182,961              |
| Loss carried forward   | 7,029,548             | 6,581,726            |
| Total deferred tax assets  | <u>7,151,519</u>      | <u>6,956,733</u>     |
| Deferred tax liabilities:  |                       |                      |
| Expense  | (1,022,141)           | (1,553,935)          |
| Intangible   | (1,019,776)           | -                    |
| Total deferred tax liability                                     | <u>(2,041,917)</u>    | <u>(1,553,935)</u>   |
| Net deferred tax assets (liabilities)                            | <u>\$ 5,109,602</u>   | <u>\$ 5,402,798</u>  |
| less: valuation allowance  | <u>(6,812,741)</u>    | <u>(1,019,373)</u>   |
| Net deferred tax assets(liabilities), net of valuation allowance | <u>\$ (1,703,139)</u> | <u>\$ 4,383,425</u>  |

The aggregate NOLs in 2018 was \$28.1 million and the aggregate NOLs in 2017 was \$22.7 million deriving from entities in the PRC, Hong Kong and US. The NOL will start to expire from 2021 if they are not used. The cumulative net operating loss in the PRC can be carried forward for five years, to offset future net profits for income tax purposes. The cumulative net operating loss Pre-2018 in the U.S. can be carried forward for twenty years. The cumulative net operating loss in Hong Kong can be carried forward without an expiration date.



Operating loss carry forward for tax purpose resulted in a deferred tax asset of \$7.03 million at December 31, 2018. Tax benefit of operating loss is evaluated on an ongoing basis including a review of historical and projected future operating results, the eligible carry forward period, and available tax planning strategies.

Income (loss) before income taxes from PRC and non-PRC sources for the year ended December 31, 2018, 2017 and 2016 are summarized as follows:

|   | For Year Ended<br>December 31, |                        |                       |
|---|--------------------------------|------------------------|-----------------------|
|   | 2018                           | 2017                   | 2016                  |
| Income(loss) before income taxes consists of: |                                |                        |                       |
| PRC   | \$ (1,909,305)                 | \$ (25,471,997)        | \$ 6,023,694          |
| Non-PRC                                       | 3,985,360                      | (6,138,507)            | (11,852,905)          |
| <b>Total</b>                                  | <b>\$ 2,076,055</b>            | <b>\$ (31,610,504)</b> | <b>\$ (5,829,211)</b> |

Net change in the valuation allowance of deferred tax assets are summarized as follows:

|  |                     |
|--|---------------------|
| Net change of valuation allowance of Deferred tax assets |                     |
| Balance at December 31, 2017                             | \$ 1,019,373        |
| Additions-change to tax expense                          | 5,793,368           |
| <b>Balance at December 31, 2018</b>                      | <b>\$ 6,812,741</b> |

(b) Tax Holiday Effect

For the year ended December 31, 2018, 2017 and 2016, the PRC CIT rate was 25%. Certain subsidiaries of the Company are entitled to tax exemptions (tax holidays) for the year ended December 31, 2018, 2017 and 2016.

The combined effects of income tax expense exemptions and reductions available to the Company for the year ended December 31, 2018, 2017 and 2016 are as follows:

|                                   | Year Ended<br>December 31, |            |           |
|-----------------------------------|----------------------------|------------|-----------|
|                                   | 2018                       | 2017       | 2016      |
| Tax benefit (holiday) credit      | \$ 1,090,348               | \$ 105,186 | \$ 36,522 |
| Basic net income per share effect | \$ 0.000                   | \$ 0.000   | \$ 0.020  |

(c) The Tax Cuts and Job Act

On December 22, 2017, 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 its financial statements. If a company cannot determine a provisional estimate to be included in its 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.

In connection with our initial analysis of the impact of the Tax Act, we recorded provisional estimates related to the remeasurement of deferred taxes and the Deemed Repatriation Transition Tax in our financial statements for our fiscal year ended December 31, 2017. The measurement period ended on December 22, 2018. As of December 22, 2018, we have completed the accounting for the impact of the Tax Act based on the guidance, interpretations, and data available. No adjustments to these provisional estimates have been recorded.

Under GILTI tax rules the Company must make an accounting policy election to either (1) recognize taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factor such amount into the Company's measure of its deferred taxes (the "deferred method"). The Company elected to treat the guilty as a current-period expense when incurred.

#### NOTE 19 - STOCK OPTIONS AND WARRANTS

##### (a) Stock Options

On May 29, 2015, the Compensation Committee of the Board of Directors of the Company approved the grant of stock options to purchase 4,900,000 shares of the Company's common stock, at an exercise price of \$9.72 per share, to the Company's directors, officers and senior employees. The stock options will vest ratably over three years and expire on the tenth anniversary of the grant date. The Company valued the stock options at \$39,990,540 and will amortize the stock compensation expense using the straight-line method over the service period from May 29, 2015, through May 29, 2018. The value of the stock options was estimated using the Black Scholes Model with an expected volatility of 90%, an expected life of 10 years, a risk-free interest rate of 2.23% and an expected dividend yield of 0.00%. There were \$1,586,926 in stock compensation expenses associated with stock options booked for the year ended December 31, 2018. After netting of an expense reversal of \$2,644,877 for forfeited stock options for the year ended December 31, 2018, the net stock compensation expenses associated with stock options were negative \$1,057,951 for the year ended December 31, 2018.

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

|                                     | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|-------------------------------------|---------------------|--|
| Outstanding as of January 1, 2017   | 4,566,667           | 9.72                                     |
| Granted                             | -                   | -  |
| Exercised                           | -                   | -  |
| Cancelled                           | -                   | -  |
| Forfeited                           | (333,333)           | 9.72                                     |
| Outstanding as of December 31, 2017 | 4,233,334           | \$ 9.72                                  |
| Granted                             | -                   | -  |
| Exercised                           | -                   | -  |
| Cancelled                           | -                   | -  |
| Forfeited                           | (333,334)           | 9.72                                     |
| Outstanding as of December 31, 2018 | <u>3,900,000</u>    | <u>\$ 9.72</u>                           |

The fair value of each of the options to purchase 4,900,000 shares of common stock issued to the employees and directors on May 29, 2015 is \$8.1613 per share.

(b) Warrants

As of December 31, 2018 and December 31, 2017, all outstanding warrants had been exercised and derivative liability relating to the warrants issued to the investors and a placement agent was \$0.

NOTE 20 – STOCK AWARD

In connection with the appointment of Mr. Henry Yu as a member of the Board of Directors (the “Board”), and as compensation, the Board authorized the Company to provide Mr. Henry Yu with 5,000 shares of Company’s restricted common stock every six months, beginning in July 2011.

As compensation for Mr. Jerry Lewin’s services as a member of the Board, the Board authorized the Company to provide Mr. Jerry Lewin with 5,000 shares of Company’s restricted common stock every six months, beginning in August 2011.

As compensation for Ms. Kewa Luo’s services as the Company’s investor relation officer, the Board authorized the Company to provide Ms. Kewa Luo with 5,000 shares of the Company’s common stock every six months, beginning in September 2013.

In November 2016, the Company entered into a three-year employment agreement with Mr. Mei Bing, to hire him as the Company’s Chief Financial Officer. Under the agreement, Mr. Mei Bing was entitled to receive an aggregate 10,000 shares of common stock each year, vested in four equal quarterly installments of 2,500 shares. On January 29, 2019, Mr. Mei resigned from his position as the Company’s CFO.

On January 29, 2019, the board appointed Ms. Zhu Xiaoying as interim Chief Financial Officer. As disclosed in Form 8K, Ms. Zhu was entitled to receive 10,000 shares of the common stock under the Company's 2008 Omnibus Long-Term Incentive Plan annually as a year-end equity bonus.

The fair value of stock awards based on service is determined based on the closing price of the common stock on the date the shares are approved by the Board for grant. The compensation costs for awards of common stock are recognized over the requisite service period of three or six months.

On December 30, 2013, the Board approved a proposal (as submitted by the Compensation Committee) of an award (the "Board's Pre-Approved Award Grant Sub-Plan under the 2008 Plan") for certain executives and other key employees, comprising a total of 335,000 shares of common stock for each fiscal year, beginning with the 2013 fiscal year, under the Company's 2008 Omnibus Long-Term Incentive Plan (the "2008 Plan"), if the Company's "Non-GAAP Net Income" for the current fiscal year increased by 10% comparing to that of the 2013. The specific number of shares of common stock to be issued in respect of such award could proportionally increase or decrease if the actual Non-GAAP Net Income increase was greater or less than 10%. "Non-GAAP Net Income" means the Company's net income for a particular year calculated in accordance with GAAP, excluding option-related expenses, stock award expenses, and the effects caused by the change of fair value of financial derivatives. For example, if Non-GAAP Net Income for the 2014 fiscal year increased by 10% compared to the Non-GAAP Net Income for the 2013 fiscal year, the selected executives and other key employees each would be granted his or her target amount of common stock of the Company. If Non-GAAP Net Income in 2014 was less than Non-GAAP Net Income in 2013, then no common stock would be granted. If Non-GAAP Net Income in 2014 increased compared to Non-GAAP Net Income in 2013 but the increase was less than 10%, then the target amount of the common stock grant would be proportionately decreased. If Non-GAAP Net Income in 2014 increased compared to Non-GAAP Net Income in 2013 but the increase was more than 10%, then the target amount of the common stock grant would be proportionately increased up to 200% of the target amount based on the modification to 2013's proposal in 2014. Any such increase in the grant would be subject to the total number of shares available under the 2008 Plan, and the Company's Board and shareholders would need to approve any increase in the number of shares reserved under the 2008 Plan if all the shares originally reserved are granted. On May 20, 2015, the shareholders of the Company approved an increase of 9,000,000 shares under the 2008 Plan at its annual meeting. On September 26, 2016, the Board approved to terminate the previous Board's Pre-Approved Award Grant Sub-Plan under the 2008 Plan and adopted a new plan to reduce the total number of shares of common stock of the stock award for selected executives and key employees from 335,000 shares of common stock to 250,000 shares of common stock for each fiscal year, with the other terms remaining the same. On February 13, 2017, the Board authorized the Company to grant 246,900 shares of common shares to certain management members and employees as compensation for their past services under the 2008 Plan. On April 18, 2018, the Board authorized the Company to grant 238,600 shares of common shares to certain management members and employees as compensation for their past services under the 2008 Plan.

The fair value of each award granted under the 2008 Plan is determined based on the closing price of the Company's stock on the date of grant of such award. Stock-based compensation expenses are calculated based on grant date fair value and number of awards expected to be earned at the end of each quarter and recognized in the quarter. In subsequent periods, stock-based compensation expenses are adjusted based on grant date fair value and the change of number of awards expected to be earned. Final stock-based compensation expenses for the year are calculated based on grant date fair value and number of awards earned for the year and recognized at the end of year.

For the year ended December 31, 2018, 2017 and 2016, the Company recognized \$1,343,560, \$1,428,025 and \$91,700 of employee stock award expenses for stock compensation and annual incentive award under the 2008 Plan paid to Board members, management and consultants under General and Administrative Expenses, respectively.

NOTE 21— INTANGIBLE ASSETS

Intangible assets include acquired other intangibles of trade name, customer relations and patent recorded at estimated fair values in accordance with purchase accounting guidelines for acquisitions. The Company acquired patents as a result of its acquisition of Jinhua An Kao which were valued in conjunction with the Company's purchase accounting at approximately \$5 million (see Note 26). The patents acquired have estimated economic useful lives of approximately 7.5 to 9.17 years.

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

|                                | <u>Remaining useful life</u> | <u>December 31,<br/>2018</u> | <u>December 31,<br/>2017</u> |
|--------------------------------|------------------------------|------------------------------|------------------------------|
| Gross carrying amount:         |                              |                              |                              |
| Trade name                     | 3 years                      | \$ 492,235                   | \$ 492,235                   |
| Customer relations             | 3 years                      | 304,086                      | 304,086                      |
| Patent                         | 6.5-8.17 years               | 4,624,513                    | -                            |
|                                |                              | <u>5,420,834</u>             | <u>796,321</u>               |
| Less: Accumulated amortization |                              |                              |                              |
| Trade name                     |                              | \$ (338,307)                 | \$ (287,561)                 |
| Customer relations             |                              | (208,993)                    | (177,644)                    |
| Patent                         |                              | (545,407)                    | -                            |
|                                |                              | <u>(1,092,707)</u>           | <u>(465,205)</u>             |
| Intangible assets, net         |                              | <u>\$ 4,328,127</u>          | <u>\$ 331,116</u>            |

The aggregate amortization expenses for those intangible assets that continue to be amortized is reflected in amortization of intangible assets in the Consolidated Statements of Income and Comprehensive Income and were \$ 649,089, \$82,095 and \$82,095 for the year ended December 31, 2018, 2017 and 2016, respectively.

Amortization expenses for the next five years and thereafter are as follows:

|            |                     |
|------------|---------------------|
| 2019       | \$ 649,089          |
| 2020       | 649,089             |
| 2021       | 649,089             |
| 2022       | 569,730             |
| 2023       | 566,994             |
| Thereafter | 1,244,136           |
| Total      | <u>\$ 4,328,127</u> |

NOTE 22 – SUMMARIZED INFORMATION OF EQUITY METHOD INVESTMENT IN THE JV COMPANY

The Company's consolidated net income includes the Company's proportionate share of the net income or loss of the Company's equity method investees. When the Company records its proportionate share of net income in such investees, it increases equity income (loss) – net in the Company's consolidated statements of income and the Company's carrying value in that investment. Conversely, when the Company records its proportionate share of a net loss in such investees, it decreases equity income (loss) – net in the Company's consolidated statements of income and the Company's carrying value in that investment. All intra-entity profits and losses with the Company's equity method investees have been eliminated.

As of December 31, 2018, the JV Company consolidated its interests in the following entities on its financial statements: (1) its 100% interest in Kandi Changxing; (2) its 100% interest in Zhejiang Chang Dian and each of its three direct wholly-owned subsidiaries, i.e., Chang Dian Tonglu, Chang Dian Changxing and Jiangsu Gu Xiang; (3) its 100% interest in Kandi Shanghai; (4) its 100% interest in Kandi Jiangsu and each of its four direct wholly-owned subsidiaries, i.e., JiHeKang, JiHeKang Service Company, Liuchuang and KandiJinhua; and (5) 100% interest in each of the directly wholly-owned subsidiaries of JiHeKang, i.e., Tianjin BoHaiWan, Jiangsu JiDian, JiHeKang Tianjin and Guangdong JiHeKang. The Company accounted for its investments in the JV Company under the equity method of accounting because the Company has a 50% ownership interest in the JV Company. As a result, the Company's consolidated net income for the year ended December 31, 2018, 2017 and 2016, included equity income from the JV Company during such periods.

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

|  | Year Ended      |                     |                     |
|--|-----------------|---------------------|---------------------|
|  | 2018            | 2017                | 2016                |
| Condensed income statement information:                  |                 |                     |                     |
| Net sales  | \$ 122,480,854  | \$ 192,748,328      | \$ 179,328,669      |
| Gross (loss) profits                                     | (17,749,674)    | 3,599,634           | 19,278,511          |
| Gross margin   | -14.5%          | 1.9%                | 10.8%               |
| Net loss   | (36,340,082)    | (22,699,965)        | (14,155,578)        |
| % of net sales   | -29.7%          | -11.8%              | -7.9%               |
| Company's share in net loss of JV based on 50% ownership | \$ (18,170,041) | \$ (11,349,983)     | \$ (7,077,789)      |
|  |                 | <b>December 31,</b> | <b>December 31,</b> |
|  |                 | <b>2018</b>         | <b>2017</b>         |
| Condensed balance sheet information:                     |                 |                     |                     |
| Current assets   |                 | \$ 751,143,254      | \$ 696,683,086      |
| Noncurrent assets  |                 | 140,736,300         | 179,943,752         |
| Total assets   |                 | \$ 891,879,554      | \$ 876,626,838      |
| Current liabilities                                      |                 | 633,711,465         | 703,629,444         |
| Noncurrent liabilities                                   |                 | -                   | 30,737,547          |
| Equity   |                 | 258,168,089         | 142,259,847         |
| Total liabilities and equity                             |                 | \$ 891,879,554      | \$ 876,626,838      |

For the years ended December 31, 2018, 2017 and 2016, the JV Company's revenues were derived primarily from the sales of EV products and EV parts in China. During 2018, the JV Company sold a total of 10,259 units of EV products in the PRC. Because the Company has a 50% ownership interest in the JV Company and accounted for its investments in the JV Company under the equity method of accounting, the Company did not consolidate the JV Company's financial results, but instead included equity income from the JV Company during such periods.

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

The Company's equity method investments in the JV Company for years ended of December 31, 2018 and 2017 are as follows:

|  | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|------------------------------|------------------------------|
| Investment in JV Company, beginning of the period,       | \$ 70,681,013                | \$ 77,453,014                |
| Investment in JV Company in 2018                         | 79,256,588                   | -                            |
| Share of loss  |                              |                              |
| Company's share in net loss of JV based on 50% ownership | (18,170,041)                 | (11,349,982)                 |
| Intercompany transaction elimination                     | (160,254)                    | (432,295)                    |
| Year 2017 unrealized profit realized                     | 441,589                      | 226,975                      |
| Subtotal   | <u>(17,888,706)</u>          | <u>(11,555,302)</u>          |
| Exchange difference                                      | (3,119,002)                  | 4,783,301                    |
| Investment in JV Company, end of the period              | <u>\$ 128,929,893</u>        | <u>\$ 70,681,013</u>         |

Sales to the Company's customers, the JV Company and its subsidiaries, for the year ended December 31, 2018 were \$48,731,310 or 43.3% of the Company's total revenue for the year, a decrease of 47.6% of the sales to the JV Company from the previous year. Sales to the JV Company and its subsidiaries were primarily battery packs, body parts, EV drive motors, EV controllers, air conditioning units and other auto parts.

As of December 31, 2018 and December 31, 2017, the current and noncurrent amount due from the JV Company and its subsidiaries, was \$67,801,735 and \$162,329,623, respectively. The breakdown is as below:

|                     | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---------------------|------------------------------|------------------------------|
| Kandi Shanghai      | \$ 29,106,464                | \$ 2,354,195                 |
| Kandi Changxing     | 203,028                      | 912,760                      |
| Kandi Jinhua        | -                            | 15,718                       |
| Kandi Jiangsu       | 614,537                      | 1,506,199                    |
| Liuchuang           | 123,210                      | -                            |
| Zhejiang Chang Dian | 273,927                      | -                            |
| JV Company          | <u>37,480,569</u>            | <u>157,540,751</u>           |
| Consolidated JV     | <u>\$ 67,801,735</u>         | <u>\$ 162,329,623</u>        |

On May 23, 2018, in order to obtain its manufacturing license, the JV Company increased its registered capital by RMB 1.09 billion (approximately \$159 million), of which Kandi Vehicle contributed its portion by converting loans to the JV company in the amount of RMB 545 million (approximately \$79 million) that were previously included in the current and noncurrent amount due from the JV Company and its subsidiaries into the JV Company's registered capital. Geely Group became a new shareholder of the JV Company by investing RMB 545 million (approximately \$79 million) in the JV Company.

As of December 31, 2018 and December 31, 2017, the current and noncurrent amount due to the JV Company and its subsidiaries, was \$118,273 and \$0, respectively. The breakdown is as below:

|                 | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-----------------|------------------------------|------------------------------|
| Kandi Jinhua    | \$ 118,273                   | \$ -                         |
| Consolidated JV | <u>\$ 118,273</u>            | <u>\$ -</u>                  |

#### NOTE 23 - COMMITMENTS AND CONTINGENCIES

Guarantees and pledged collateral for bank loans to other parties:

(1) Guarantees for bank loans

| <b>Guarantee provided to</b>              | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|------------------------------|------------------------------|
| Kandi Electric Vehicles Group Co., Ltd.   | 7,271,247                    | -                            |
| Kandi Electric Vehicles Jiangsu Co., Ltd. | 7,271,247                    | -                            |
| <b>Total</b>                              | <u>\$ 14,542,494</u>         | <u>\$ -</u>                  |

On March 15, 2013, the Company entered into a guarantee contract to serve as the guarantor of Nanlong Group Co., Ltd. ("NGCL") for NGCL's loan in the amount of \$2,908,499 from Shanghai Pudong Development Bank Jinhua Branch, with a related loan period of March 15, 2013, to March 15, 2016. NGCL is not related to the Company. Under this guarantee contract, the Company agreed to assume joint liability as the loan guarantor. In April 2017, Shanghai Pudong Development Bank filed a lawsuit against NGCL, the Company and ten other parties in Zhejiang Province People's Court in Yongkang City, alleging NGCL defaulted on a bank loan borrowed from Shanghai Pudong Development Bank for a principal amount of approximately \$2.9 million and demanded that the guarantor bear the liability for compensation. On May 27, 2017, a judicial mediation took place in Yongkang City and parties reached a settlement in mediation, in which the plaintiff agreed NGCL would repay the loan principal and interest in installments. As far as NGCL repays the principal and interest according to the agreement, the plaintiff will not ask the Company for recovery. As of December 31, 2018, the Company expects the likelihood of incurring losses in connection with this matter to be remote.



On September 29, 2015, the Company entered into a guarantee contract to serve as the guarantor of Zhejiang Shuguang Industrial Co., Ltd. ("ZSICL") for a bank loan in the amount of \$4,217,323 from Ping An Bank, with a related loan period of September 29, 2015, to September 28, 2016. ZSICL is not related to the Company. Under this guarantee contract, the Company agreed to perform all the obligations of ZSICL under the loan contract if ZSICL failed to perform its obligations as set forth therein. In August 2016, Ping An Bank Yiwu Branch ("Ping An Bank") filed a lawsuit against ZSICL, the Company, and three other parties in Zhejiang Province People's Court in Yiwu City, alleging ZSICL defaulted on a bank loan it had borrowed from Ping An Bank for a principal amount of RMB 29 million or approximately \$4.2 million (the "Principal"), for which the Company was a guarantor along with other three parties. On December 25, 2016, the court ruled that ZSICL should repay Ping An Bank the principal and associated interest remaining on the bank loan within 10 days once the adjudication was effective. In addition, the court found that the Company and the three other parties, acted as guarantors, have joint liability for this bank loan. On July 31, 2017, the Company and Ping An Bank reached an agreement to settle. According to the agreement, the Company was to pay Ping An Bank RMB 20 million or approximately \$3.0 million in four installments before October 31, 2017 to release the Company from the guarantor liability for this default. As of October 31, 2017, the Company has made all four installments in the total of RMB 20 million or approximately \$3.0 million to Ping An Bank and thus the Company has been released from the guarantor liability for this default. According to the Company's agreement with ZSICL, ZSICL agreed to reimburse all the Company's losses due to ZSICL's default on the loan principal and interests, of which RMB 11.9 million has been reimbursed to the Company as of the date of this report and the remains is expected to be reimbursed in installments within next two years. The Company expects the likelihood of incurring losses in connection with this matter to be low.

On August 29, 2018, the Company entered into a guarantee contract to serve as the guarantor for the JV Company for bank acceptance notes in the aggregate amount of \$3,053,924 from Bank of China, with a related period of August 29, 2018 to February 29, 2019. Under this guarantee contract, the Company agreed to perform all the obligations of the JV Company under the loan contract if the JV Company fails to perform its obligations as set forth therein.

On August 30, 2018, the Company entered into a guarantee contract to serve as the guarantor for Kandi Jiangsu for bank loans in the aggregate amount of \$7,271,247 from China Merchants Bank Nantong branch, with a related loan period of August 31, 2018 to February 28, 2019, and has been paid off on February 1, 2019. Under this guarantee contract, the Company agreed to perform all the obligations of the JV Company under the contract if the Kandi Jiangsu fails to perform its obligations as set forth therein.

On September 3, 2018, the Company entered into a guarantee contract to serve as the guarantor for the JV Company for bank acceptance notes in the aggregate amount of \$4,217,323 from Bank of China, with a related period of September 3, 2018 to March 3, 2019. Under this guarantee contract, the Company agreed to perform all the obligations of the JV Company under the contract if the JV Company fails to perform its obligations as set forth therein.

(2) Pledged collateral for bank loans to other parties.

As of December 31, 2018 and December 31, 2017, none of the Company's land use rights or plants and equipment were pledged as collateral securing bank loans to other parties.

## **Litigation**

Beginning in March 2017, putative shareholder class actions were filed against Kandi Technologies Group, Inc. and certain of its current and former directors and officers in the United States District Court for the Central District of California and the United States District Court for the Southern District of New York. The complaints generally allege violations of the federal securities laws based on Kandi's disclosure in March 2017 that its financial statements for the years 2014, 2015 and the first three quarters of 2016 would need to be restated, and seek damages on behalf of putative classes of shareholders who purchased or acquired Kandi's securities prior to March 13, 2017. All the remaining cases are in the New York federal court, and lead plaintiff and lead counsel have been appointed. Kandi has moved to dismiss the remaining cases and that motion remains pending.

Beginning in May 2017, purported shareholder derivative actions based on the same underlying events described above were filed against certain current and former directors of Kandi in the United States District Court for the Southern District of New York. Lead plaintiff and lead counsel have been appointed. The directors have moved to dismiss the remaining case and that motion remains pending.

In October 2017, a shareholder filed a books and records action against the Company in the Delaware Court of Chancery pursuant to 8 Del. C. Section 220 seeking the production of certain documents generally relating to the same underlying items described above as well as attorney's fees (the "Section 220 Litigation"). On September 28, 2018, the parties, through their respective counsel, agreed to dismiss the Section 220 Litigation with prejudice and with each party bearing its own attorney's fees, costs, and expenses, thereby concluding the action.

In February 2019, this same shareholder commenced a derivative action against certain current and former directors of the Company in a pre-suit demands in the Delaware Court of Chancery. The Board of Directors approved the formation of a Special Litigation Committee ("SLC") and the retention of a Delaware law firm as independent counsel to the SLC. The SLC and its independent counsel are in the process of conducting an investigation of the allegations of misconduct set forth in the pre-suit demands.

The Company believes that although its financial statements for the years 2014, 2015 and the first three quarters of 2016 were restated, the restatements had no effect on its net income. While the Company further believes that the claims in the litigations are without merit and will defend itself vigorously, Kandi is unable to estimate the possible loss, if any, associated with the litigations. The ultimate outcome of any litigation is uncertain and the outcome of these matters, whether favorable or unfavorable, could have a negative impact on Kandi's financial condition or results of operations due to defense costs, diversion of management resources and other factors. Defending litigation can be costly, and adverse results in the Litigations could result in substantial monetary judgments. No assurance can be made that litigation will not have a material adverse effect on Kandi's future financial position.

NOTE 24 – SEGMENT REPORTING

The Company has one operating segment. The Company's revenue and long-lived assets are primarily derived from and located in China. The Company does not have manufacturing operations outside of China.

The following table sets forth disaggregation of revenue:

|   | Year Ended December 31, |                       |                       |
|---|-------------------------|-----------------------|-----------------------|
|   | 2018                    | 2017                  | 2016                  |
|   | Sales<br>Revenue        | Sales<br>Revenue      | Sales<br>Revenue      |
| <b>Primary geographical markets</b>     |                         |                       |                       |
| Overseas                                | \$ 12,741,570           | \$ 4,817,517          | \$ 4,919,054          |
| China                                   | 99,697,258              | 97,988,104            | 124,572,959           |
| <b>Total</b>                            | <b>\$ 112,438,828</b>   | <b>\$ 102,805,621</b> | <b>\$ 129,492,013</b> |
| <b>Major products</b>                   |                         |                       |                       |
| EV parts                                | \$ 99,099,312           | \$ 97,355,828         | \$ 120,079,312        |
| EV products                             | -                       | -                     | 3,718,291             |
| Off-road vehicles                       | 13,339,516              | 5,449,793             | 5,694,410             |
| <b>Total</b>                            | <b>\$ 112,438,828</b>   | <b>\$ 102,805,621</b> | <b>\$ 129,492,013</b> |
| <b>Timing of revenue recognition</b>    |                         |                       |                       |
| Products transferred at a point in time | \$ 112,438,828          | \$ 102,805,621        | \$ 129,492,013        |
| <b>Total</b>                            | <b>\$ 112,438,828</b>   | <b>\$ 102,805,621</b> | <b>\$ 129,492,013</b> |

NOTE 25 – Related Party Transactions

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

The following table lists sales to related parties (other than the JV Company and its subsidiaries) for 2018, 2017 and 2016:

|                 | Year Ended<br>December 31, |             |                     |
|-----------------|----------------------------|-------------|---------------------|
|                 | 2018                       | 2017        | 2016                |
| Service Company | -                          | -           | 3,913,031           |
| <b>Total</b>    | <b>\$ -</b>                | <b>\$ -</b> | <b>\$ 3,913,031</b> |

The details for amount due from related parties (other than the JV Company and its subsidiaries) as of the December 31, 2018 and 2017 were as below:

|                              | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|------------------------------|------------------------------|------------------------------|
| Service Company              | -                            | 162,048                      |
| Total due from related party | <u>\$ -</u>                  | <u>\$ 162,048</u>            |

The Company previously had a 9.5% ownership interest in the Service Company and Mr. Hu, Chairman and CEO of the Company, has a 13% ownership interest in the Service Company. In June 2018, Kandi Vehicles transferred its 9.5% ownership interest in the Service Company to Geely Group. As a result of this transaction, the amounts due from related parties in connection with the Service Company were transferred to accounts receivable. The main transactions between the Company and the Service Company are purchases by the Service Company of batteries and EV parts.

For transactions with the JV Company and its subsidiaries, please refer to Note 22.

#### NOTE 26 - ACQUISITIONS

##### **Jinhua An Kao**

On January 3, 2018, Kandi Vehicles completed the acquisition of 100% of the equity of Jinhua An Kao Power Technology Co., Ltd., located in Jinhua City, Zhejiang Province, China. Jinhua An Kao manufactures and markets a unique system of pure electric car battery replacement technologies including an intelligent constant-temperature charging station, a 50-100 channel intelligent battery charging system, a car battery replacement tool, and a car washing machine. Jinhua An Kao also owns plug-in and soft-connection PACK technology. The acquisition is intended to strengthen Kandi's EV battery exchange offerings in order to be the best available in the market. The Company paid approximately RMB 25.93 million (approximately \$4 million) at the closing of the transaction using cash on hand and issued a total of 2,959,837 shares of restrictive stock or 6.2% of the Company's total outstanding shares of the common stock valued at approximately \$20.7 million to the former shareholder of Jinhua An Kao and his designees (the "An Kao Shareholders"), and may be required to pay future consideration up to an additional 2,959,837 shares of common stock, which are being held in escrow, to be released contingent upon the achievement of certain net income-based milestones in next three years. Any escrowed shares that are not released from escrow to the An Kao Shareholders for failure to achieve the milestones will be forfeited and returned to the Company for cancellation. While the escrowed shares are held in escrow, the Company will retain all voting rights with respect to the shares. For the year ended December 31, 2018, Jinhua An Kao achieved its first year net profit target. According to the agreement, the former shareholders of An Kao will receive 739,959 shares of Kandi's restrictive common stock or 12.5% of total Kandi stock in the purchase price.

As of the acquisition date, the Company recorded a contingent liability of approximately \$8.71 million, representing the estimated fair value of the contingent consideration the Company currently expects to pay to the An Kao Shareholders upon the achievement of certain net income-based milestones. The Supplementary Agreement sets forth the terms and conditions of the issuance of these shares. The fair value of the contingent consideration liability associated with additional 2,959,837 shares of restrictive common stock was estimated by using Monte Carlo simulation method, which took into account all possible scenarios. This fair value measurement is classified as Level 3 within the fair value hierarchy prescribed by ASC Topic 820, Fair Value Measurement and Disclosures. In accordance with ASC Topic 805, Business Combinations, the Company will re-measure this liability each reporting period and record changes in the fair value through a separate line item within the Company's consolidated statements of Income. During the year of 2018, the Company recorded a gain of approximately \$3.0 million in the accompanying statements of income representing the decrease in fair value of this obligation between the acquisition date and December 31, 2018, which was largely due to the decrease of the Company's stock price during the period.

The components of the preliminary purchase price as of the acquisition date for Jinhua An Kao are as follows:

|  |                      |
|--|----------------------|
| Cash                                   | \$ 3,988,765         |
| Stock awards                           | 20,718,859           |
| Fair value of contingent consideration | 8,712,996            |
| Total                                  | <u>\$ 33,420,620</u> |

The Company accounted for the acquisition as business combinations, in accordance with ASC Topic 805. The Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The following summarizes the preliminary purchase price allocations:

|                               | <b>Jinhua An<br/>Kao</b> |
|-------------------------------|--------------------------|
| Goodwill                      | \$ 24,216,559            |
| Amortizable intangible assets | 4,892,165                |
| Other net assets              | 5,552,986                |
| Deferred income taxes         | (1,241,090)              |
| Total                         | <u>\$ 33,420,620</u>     |

Transaction costs of \$33,295 associated with the acquisition were expensed as incurred through general and administrative expenses in the statement of income in 2018.

The Company allocated the preliminary purchase price to specific intangible asset categories as of the acquisition date for Jinhua An Kao as follows:

|                                | <b>Amount<br/>Assigned</b> | <b>Estimated<br/>useful life<br/>(in years)</b> |
|--------------------------------|----------------------------|---|
| Amortizable intangible assets: |                            |   |
| Patents                        | \$ 4,892,165               | 7.5 – 9.17                                      |

The Company allocated the preliminary purchase price to specific intangible assets for patents that the Company acquired. The Company believes that the estimated intangible asset value so determined represent the fair value at the date of acquisition and do not exceed the amount a third party would pay for the assets. The Company used the asset based approach to derive the fair value of the amortizable intangible assets. These fair value measurements are based on significant unobservable inputs, including estimates and assumptions and, accordingly, are classified as Level 3 within the fair value hierarchy prescribed by the ASC Topic 820.

The Company recorded the excess of the purchase price over the estimated fair values of the identified assets as goodwill, which is non-deductible for tax purposes. Goodwill was established due to primarily to revenue and earnings projections associated with Jinhua An Kao's future operations, as well as synergies expected to be gained from the integration of the business into the Company's existed operations.

The Company's condensed consolidated financial statements included approximately \$10 million of revenue and approximately \$1.3 million of operating income related to the operating results for Jinhua An Kao from its date of acquisition.

The following unaudited pro forma financial information presents the combined results of operations of Kandi and the Acquired Business as if the acquisition had occurred as of January 1, 2017. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisition been completed as of January 1, 2017. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future financial position or operation results of Kandi. The unaudited pro forma financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies that could result from acquisition.

#### Unaudited Pro Forma Combined Statements of Operations Information

|                      | Year Ended December 31, |                 |
|----------------------|-------------------------|-----------------|
|                      | 2018                    | 2017            |
| Revenue              | \$ 112,438,828          | \$ 114,550,699  |
| LOSS FROM OPERATIONS | \$ (1,638,348)          | \$ (26,235,651) |
| NET LOSS             | \$ (5,694,699)          | \$ (28,414,886) |

#### SC Autosports

On July 1, 2018, Kandi Vehicles completed the acquisition of 100% of the equity of SC Autosports (formerly Sportsman Country). SC Autosports is a Dallas TX based sales company primarily engaged in the wholesale of off-road vehicle products, with a small percentage of business in off-road vehicle parts wholesale and retail. The acquisition is an entry point to gain a compelling opportunity for business integration and market expansion in America which will provide Kandi a solid foundation for future strategic business development. The Company issued a total of 171,969 shares of restrictive stock or approximately 0.3% of the Company's total outstanding shares of the common stock valued at approximately \$0.8 million at the closing of transaction to the former members of SC Autosports within 30 days from the signing date of the Transfer Agreement, and may be required to pay future consideration up to an additional 1,547,721 shares of common stock, which are being held in escrow, to be released contingent upon the achievement of certain pre-tax profit based milestones in the next three years. Any escrowed shares that are not released from escrow to the SC Autosports former members for failure to achieve the milestones will be forfeited and returned to the Company for cancellation. While the escrowed shares are held in escrow, the Company will retain all voting rights with respect to the shares. For the year ended December 31, 2018, SC Autosports achieved its first year pre-tax profit target. According to the agreement, the former members of SC Autosports will receive 343,938 shares of Kandi's restrictive common stock or 20% of total Kandi stock in the purchase price.

As of the acquisition date, the Company recorded a contingent liability of approximately \$5.3 million, representing the estimated fair value of the contingent consideration the Company currently expects to pay to SC Autosports' former members upon the achievement of certain net income-based milestones. The Transfer Agreement sets forth the terms and conditions of the issuance of these shares. The fair value of the contingent consideration liability associated with additional 1,547,721 shares of restrictive common stock was estimated by using the Monte Carlo simulation method, which took into account all possible scenarios. This fair value measurement is classified as Level 3 within the fair value hierarchy prescribed by ASC Topic 820, Fair Value Measurement and Disclosures. In accordance with ASC Topic 805, Business Combinations, the Company will re-measure this liability each reporting period and record changes in the fair value through a separate line item within the Company's consolidated statements of Income. During the year of 2018, the Company recorded a gain of approximately \$0.4 million in the accompanying statements of income representing the decrease in fair value of this obligation between the acquisition date and December 31, 2018, which was largely due to the decrease of the Company's stock price during the period.

The components of the preliminary purchase price as of the acquisition date for SC Autosports are as follows:

|  | <b>SC<br/>Autosports</b> |
|--|--------------------------|
| Stock awards                           | \$ 756,664               |
| Fair value of contingent consideration | 5,306,293                |
| <b>Total</b>                           | <b>\$ 6,062,957</b>      |

The Company accounted for the acquisition as business combinations and, in accordance with ASC Topic 805. The Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The following summarizes the preliminary purchase price allocations:

|                  | <b>SC<br/>Autosports</b> |
|------------------|--------------------------|
| Goodwill         | \$ 5,240,359             |
| Other net assets | 822,598                  |
| <b>Total</b>     | <b>\$ 6,062,957</b>      |

Transaction costs of \$8,256 associated with the acquisition were expensed as incurred through general and administrative expenses in the statement of income in 2018.

The Company recorded the excess of the purchase price over the estimated fair values of the identified assets as goodwill, which is non-deductible for tax purposes. Goodwill was established primarily based on revenue and earnings projections associated with SC Autosports' future operations, as well as synergies expected to be gained from the integration of the business into the Company's existed operations.

The Company's condensed consolidated financial statements included approximately \$7.9 million of revenue and approximately \$1.6 million of operating income related to the operating results for SC Autosports from its date of acquisition.

The following unaudited pro forma financial information presents the combined results of operations of Kandi and the Acquired Business as if the acquisition had occurred as of January 1, 2017. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisition been completed as of January 1, 2017. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project, the future financial position or operation results of Kandi. The unaudited pro forma financial information excludes acquisition and integration costs and does not give effect to any estimated and potential cost savings or other operating efficiencies that could result from acquisition.

**Unaudited Pro Forma Condensed Combined Statements of Operations Information**

|                      | <b>Year Ended December 31,</b> |                 |
|----------------------|--------------------------------|-----------------|
|                      | <b>2018</b>                    | <b>2017</b>     |
| Revenue              | \$ 120,537,086                 | \$ 117,870,874  |
| LOSS FROM OPERATIONS | \$ (1,519,581)                 | \$ (25,063,646) |
| NET LOSS             | \$ (5,575,932)                 | \$ (27,328,881) |



**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item Controls and Procedures.**

**9A.**

**(a) Evaluation of Disclosure Controls and Procedures**

The Company is required to disclose in reports that are filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is: (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

The Company has evaluated, under the participation of the Company's Chief Executive Officer and the Interim Chief Financial Officer, the effectiveness of disclosure controls and procedures as of December 31, 2018. Based on our evaluation, we concluded that the Company's disclosure controls were effective as of December 31, 2018. In designing and evaluating the disclosure controls and procedures, the Company's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and the Company's management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

**(b) Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") as defined in Rules 13a-15(f) and 15d-15(f) under Exchange Act. The Company's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

The Company's ICFR 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 U.S. GAAP, 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 consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations, so that no evaluation of controls can provide absolute assurance that all control issues are detected. 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. Therefore, any current evaluation of controls cannot and should not be projected to future periods.

Management conducted an assessment of the effectiveness of our system of ICFR as of December 31, 2018, the last day of our fiscal year of 2018. This assessment was based on criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in 2013 (the “2013 COSO Framework”) and included an evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on management’s evaluation under the 2013 COSO Framework, management concluded that the Company’s internal controls over financial reporting were effective as of December 31, 2018 based on those criteria, and the control deficiencies “including lack of adequate knowledge of US GAAP and SEC rules; inaccurate accounting for income taxes” in 2017 10K report has been corrected by December 31, 2018.

We reviewed the results of management’s assessment with the Audit Committee of our Board of Directors.

Our independent registered public accounting firm, BDO China Shu Lun Pan Certified Public Accountants LLP, has audited the effectiveness of our ICFR as of December 31, 2018 as stated in their report which is attached to the auditors’ report included under item 8 of this report.

**(c) Changes in Internal Control Over Financial Reporting**

There was no change to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company’s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than the following:

(i)The company employed a US tax accountant with qualifications for corporate income tax practice registration to reassess the US corporate income tax since 2007. The tax accountant examined the existing contracts, current applicable accounting estimates and accounting policies, and assessed the obligations that the contract needs to perform, the transaction price, the allocation and control of the transaction price, and the difference and impact of the transfer and the determination of the liability between the entity and the agent. According to the evaluation results of the professional institution, the company’s corporate income tax accounting, internal control requirement on the time and mode of sales recognition have been in line with ASC606 and ASC740 guidelines since the Company was formed (since 2007); US corporate income tax accounting data is accurate; and it has no significant impact on all 10K financial reports since 2007.

(ii)The company’s key position staff have received training from US tax accountant with US corporate income tax declare qualifications, and gained sufficient knowledge and professional skills about SEC regulations and US GAAP. Through the financial practice in Q1\Q2\Q3 in 2018, their performance indicates that they have the ability to process US GAAP financial reports adequately, efficiently, and accurately.

**Item Other Information.**

**9B.**

None.

## PART III

### Item Directors, Executive Officers and Corporate Governance

10.

The following table sets forth certain information regarding our executive officers and members of the Company's board of directors (the "Board of Directors") as of March 8, 2019:

| <b>Name</b>               | <b>Age</b> | <b>Position</b>  | <b>Served From</b>         |
|---------------------------|------------|--|----------------------------|
| Hu Xiaoming               | 62         | Chairman of the Board, President and Chief Executive Officer | June 2007                  |
| Mei Bing (4)              | 54         | Former Chief Financial Officer                               | November 2016-January 2019 |
| Zhu Xiaoying (4)          | 48         | Interim Chief Financial Officer                              | January 2019               |
| Zhu Feng                  | 48         | Director   | December 2017              |
| Chen Liming (1), (2), (3) | 82         | Director (Independent)                                       | May 2012                   |
| Lin Yi (2), (3)           | 66         | Director (Independent)                                       | May 2017                   |
| Jerry Lewin (1)           | 64         | Director (Independent)                                       | November 2010              |
| Henry Yu (1), (2), (3)    | 65         | Director (Independent)                                       | July 2011                  |

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Nominating and Corporate Governance Committee

(4) Mr. Mei resigned from his position as the Company's CFO on January 29, 2019. The Board appointed Ms. Zhu Xiaoying as interim CFO, effective January 29, 2019.

## Business Experience of Directors and Executive Officers

### Biographical Information

**Hu Xiaoming** was appointed as our Chief Executive Officer, President and Chairman of the Board in June 2007. Prior to joining the Company, from October 2003 to April 2005, Mr. Hu served as the Project Manager (Chief Scientist) in the WX Pure Electric Vehicle Development Important Project of Electro-vehicle in the State 863 Plan. From October 1984 to March 2003, Mr. Hu served as: (i) Factory Director of the Yongkang Instrument Factory, (ii) Factory Director of the Yongkang Mini Car Factory, (iii) Chairman and General Manager of the Yongkang Vehicle Company, (iv) General Manager of the Wan Xiang Electric Vehicle Developing Center and (v) the General Manager of the Wan Xiang Battery Company. Mr. Hu personally owned 4 invention patents and 7 utility model patents, which he transferred to the Company in fiscal year 2012.

**Mei Bing** was appointed as Chief Financial Officer, effective November 14, 2016 and resigned from his position on January 29, 2019. Mr. Mei is a seasoned financial executive with over 15 years of distinguished corporate executive career with large multinational enterprises and middle market companies in the U.S. and China. Prior to joining the Company, Mr. Mei served as Chief Financial Officer and Board Secretary of Skystar Bio-Pharmaceutical Company, a publicly traded leading biotechnology company in China since July 2011. From June 2015 through June 2016, Mr. Mei also served as an Independent Non-Executive Member of the Board of Directors and Chairman of Audit Committee of PharmaMax Corporation in China. From January 2006 through July 2011, Mr. Mei served as Chief Financial Officer of Avineon, Inc., a multinational technology company in the U.S., where he managed the Company's global financial operations in North America, Asia and Europe. Previously, Mr. Mei served as Controller of Arrowhead Global Solutions, Inc. (now part of Harris Corporation), a global provider of satellite communications to remote and harsh environments in the U.S. In addition, Mr. Mei served as Controllers of PICS, Inc. and Thompson Hospitality Corporation, a member of the Compass Group family of companies. Mr. Mei received a B.S. in Economics from Zhejiang University in Hangzhou, China and holds an M.B.A. from The Fuqua School of Business at Duke University where he graduated with distinction as a Fuqua Scholar. Mr. Mei is a Certified Public Accountant (CPA) in the State of Maryland, a Certified Management Accountant (CMA), and a Chartered Global Management Accountant (CGMA).

**Zhu Xiaoying**, was appointed as interim Chief Financial Officer, effective January 29, 2019. Ms. Zhu has been engaged in the financial management industry for over 20 years. She has extensive experience in the financial management of publicly traded companies. From October 2003 to June 2007, Ms. Zhu was the Chief Financial Officer of Zhejiang Kandi Vehicle Co., Ltd.; from June 29, 2007 to April 30, 2015, Ms. Zhu served as the Company's Chief Financial Officer. After her time as Kandi's Chief Financial Officer, she returned to Zhejiang Kandi Vehicle Co., Ltd. as its Chief Financial Officer, where she is currently employed. Prior to 2003, Ms. Zhu served as a financial manager at Zhejiang YongKang Auto Manufacturing Company. Ms. Zhu graduated from Hangzhou University of Electronic Technology with a degree in accounting in July 1992 and obtained the EMBA certificate from Hong Kong Polytechnic University in 2011. Ms. Zhu has obtained qualification certificate of the chief financial officer, the international registered internal auditor (CIA) qualification certificate, the CMA international registered management accountant qualification certificate, and the national first-level credit manager qualification certificate in China.

**Zhu Feng** was appointed as a director of the Company on December 28, 2017. Zhu Feng serves as President of Kandi Electric Vehicles Group Co., Ltd. (the “JV Company”) since January 2017. Prior to that, he was Executive Vice President of the JV Company since 2015. From 2014 to 2015, he also served as Executive Vice General Manager of Kandi Electric Vehicles (Shanghai). Since 2004, he served as Vice General Manager of Shanghai Maple Automobile, Vice General Manager of LTI Automobile Company, Assistant General Manager of LTI Automobile Brand Company, and Director of Overseas Manufacturing Business European Region of JiaFeng International Sales Company. Mr. Zhu joined Geely Automobile Group since 2002, served as head of development planning department, head of standards and regulations department and head of foreign cooperation department. Mr. Zhu has nearly 20 years of extensive experience in automotive manufacturing industry specializing in advanced production and supply chain management. Mr. Zhu received an M.B.A. degree from Xi’an Jiaotong University in China. Mr. Zhu’s extensive experience in the automotive manufacturing industry qualifies him to serve on our Board and led the Board to conclude that he should be nominated to serve as a director.

**Lin Yi** was appointed as a director of the Company in May 2017. Mr. Lin has extensive experience in automotive engineering and multi-body system dynamics research. Throughout his career, he has been awarded numerous high-ranking national science and technology rewards. He served several key senior roles in academic and industrial organizations and was given Special Government Allowances from the State Council in 1992. Additionally, he was named an “Expert of China’s Machinery Industry” in 1995 and elected to the “Outstanding Young Science Talents in China’s Automobile Industry” in 1998. From 2007 to 2015, he served as a deputy chief engineer at Beijing Automotive Group Co., Ltd., as an executive director of Beijing Automotive New Energy Vehicle Co., Ltd., and as the executive vice president of Beijing Automotive Research Institute. Prior to that, he was a part-time professor at Beijing University of Technology, Beijing University of Aeronautics and Astronautics, Institute of Electrical Engineering at China Academy of Sciences, Shanghai Jiaotong University, and Hunan University. He was appointed as the dean of Automotive Engineering at Jilin University of Technology in 1996 and remained in that position until 2000. Mr. Lin received his Bachelor of Science degree, Master of Science degree and Doctoral degree in Automotive Engineering from Jilin University of Technology. He was a visiting scholar at Mechanical Department at the University of Michigan from 2001 to 2002. He is a member of Society of Automotive Engineers (SAE).

**Jerry Lewin** was appointed as a director of the Company in November 2010. Jerry Lewin became Senior Vice President of Field Profitability Globally of Hyatt Hotels Corporation in January of 2015. In his new responsibilities he and his team are to move the company forward with new initiatives to be the best operator in the Hospitality Industry. Prior to this promotion, he served as Senior Vice President of Field Operations for Hyatt Hotels Corporation and is responsible for managing the hotels in North American continent. Mr. Lewin has been with Hyatt since 1987. In his past capacity as Senior Vice President of Operation Lewin supervised a number of areas, including finance, sales and marketing, public relations, customer service, engineering, and human resources. Lewin serves as a member of the Hyatt Hotels Corporation’s Managing Committee and sits on the board of directors of the New York City Hotel Association. Since July 2009, Mr. Lewin has served as a director of several companies in the past. Lewin currently serves as the President of the New York Law Enforcement Foundation and as the President of the NY State Troopers PBA Signal 30 Fund. Mr. Lewin has served in various management capacities for several hotel companies in San Francisco, Oakland, Los Angeles, San Diego and Las Vegas. Mr. Lewin received his Bachelor of Science degree from Cornell University and completed the Executive Development Program at J.L. Kellogg Graduate School of Management at Northwestern University. Mr. Lewin’s leadership skills and extensive management experience qualifies him to serve on our Board and led the Board to conclude that he should be nominated to serve another term as a director.

**Henry Yu** was appointed as a director of the Company on July 1, 2011. In October of 2015, Henry joined Asian Investors Consortium as an Executive Director. Asian Investors Consortium of Asia invests in projects in Greater China and in Asia Pacific. Henry is also a Senior Advisor to ChinaPlus Capital Ltd of Shanghai, a company that focuses on bridging US/China business. Yu, a seasoned banker of about 34 years, has had an excellent banking career covering domestic banking and global business. He was Managing Director of the Global Financial Institutions of Fifth Third Bank from 2012-September of 2015. Previous affiliation included Bank of America in HK, Comerica Bank, National City Bank, SunTrust Bank, Standard Chartered Bank China, and East West Bank. Henry is a well-rounded banker having been involved in Investment Banking, Commercial and International Multinational Lending, Treasury Management, Credit Administration, Compliance, Foreign bank relationship management, Trade Finance, and Global Supply Chain. From 2003 through 2007, Yu held Series 7 and 62 Certification from the Financial Industry Regulatory Authority. Henry Yu is also an avid volunteer promoting U.S./China and U.S./Emerging Markets business relationships and transactions. Through Henry's 25 plus years of coverage on Emerging Markets, Asia, and in particular Greater China, he is a frequent speaker and lecturer on Asian/U. S./China business to universities in Georgia (Emory University, Georgia Tech, Georgia State University, Kennesaw State University, Georgia Perimeter College), and universities in China, namely Sichuan University, Suzhou Institute, Jiliang University, and Jinan University. Henry chairs the Advisory Board of the National Association of Chinese -Americans, and is a member of the Global Commerce Council of the Metro Atlanta Chamber. A believer in education and mentorship, Henry sits on the Asian Studies Board of Kennesaw State University, a member of Georgia State University's China Task Force, and Trustee of Georgia Perimeter College's Foundation Board. Henry is also President of the Hong Kong Association of Atlanta, and works closely with the NYC Office of the HK Economic & Trade Office in NYC. Henry received his BA degree in Economics in 1978 from the University of Michigan and MBA in Finance from the University of Detroit in 1980. Married to wife Elaine, the Yu's have daughters Amanda and Vivian.

**Chen Liming** was appointed as a director of the Company on May 1, 2012. Mr. Chen serves as an advisor to AA Wind & Solar Energy Development Group, LLC. Prior to his current position, from February 2009 to October 2010, Mr. Chen participated in a joint venture with Mr. Qiu Youmin, the former designer of Geely Automobile Co., Ltd., and assisted in the development of super mini three seat pure electric vehicles. From June 2008 to July 2009, he participated in the development of Lithium Iron Phosphate Battery with Shanghai Yuankai Group. Mr. Chen served as a Professor of Electrical Engineering at Zhejiang University from 1983 to 1997. In addition, Mr. Chen served as a visiting scholar in the Electrical Engineering Department at Columbia University in New York City from 1981 to 1983 and as a professor in Electrical Engineering at Zhejiang University from 1960 to 1981. Mr. Chen received his bachelor degree from Southeast University in Jiangsu, China in 1960.

#### **Family Relationships**

No family relationships existed among any of our directors or executive officers.

#### **Audit Committee Financial Expert**

Our Audit Committee currently consists of Henry Yu (Chairman), Jerry Lewin and Chen Liming, each of whom is independent under NASDAQ listing standards. Our Board of Directors determined that each of Mr. Yu and Mr. Lewin qualifies as an "audit committee financial expert," as defined by Item 407 of Regulation S-K and NASDAQ Rule 5605(a)(2). In reaching this determination, the Board of Directors made a qualitative assessment of Mr. Yu's and Mr. Lewin's level of knowledge and experience based on a number of factors, including formal education and business experience.

## Code of Ethics

We have adopted a “Code of Ethics” as defined by regulations promulgated under the Securities Act of 1933, as amended, and the Exchange Act that applies to all of our directors and employees, including our principal executive officer, principal financial officer and principal accounting officer. A current copy of our “Code of Business Conduct and Ethics” is included as exhibit 14.1 to our annual report on Form 10-K filed on March 16, 2015. A copy of our “Code of Business Conduct and Ethics” will be provided to you without charge upon written request to Hu Xiaoming, Chief Executive Officer, Kandi Technologies Group, Inc., Jinhua City Industrial Zone, Jinhua, Zhejiang Province, People’s Republic of China, 321016. You may also access these filings at our web site under the investor relations link at <http://en.kandivehicle.com>

## Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company’s directors and executive officers and persons who beneficially own more than ten percent (10%) of a registered class of its equity securities, file with the SEC reports of ownership and changes in ownership of its common stock and other equity securities. Executive officers, directors, and beneficial owners of greater than ten percent (10%) of a registered class of the Company’s equity securities are required by SEC regulation to furnish the Company with copies of all Section 16(a) reports that they file. Based solely upon a review of the copies of such reports furnished to us or written representations that no other reports were required, the Company believes that, during fiscal year 2018, all filing requirements applicable to its executive officers, directors, and greater than ten percent (10%) beneficial owners were met, except for the following: (i) Hu Xiaoming did not timely file Form 4 after being issued 90,000 shares on April 21, 2018, however, the Form 4 corresponding to this transaction was subsequently filed on June 29, 2018. Additionally, Mr. Hu did not timely file Form 4 after acquiring 37,461 shares on August 3, 2018, however, the Form 4 was subsequently filed August 14, 2018. (ii) Mei Bing did not timely file Form 4 after being issued 2,500 shares on January 10, 2018, however, the Form 4 corresponding to this transaction was filed March 13, 2018. Mr. Mei did not timely file Form 4 after being issued 2,500 shares on April 10, 2018, however, the Form 4 corresponding to this transaction was filed June 29, 2018. Mr. Mei did not timely file Form 4 after being issued 2,500 shares on July 12, 2018 and 2,500 shares on November 9, 2018, however, the Form 4 corresponding to both of these transactions was subsequently filed November 15, 2018. (iii) Henry Yu did not timely file Form 4 after being issued 5,000 shares on February 2, 2018, however, the Form 4 corresponding to this transaction was subsequently filed March 13, 2018. Mr. Yu did not timely file Form 4 after being issued 5,000 shares on August 11, 2018, however, the Form 4 corresponding to this transaction was subsequently filed on August 15, 2018. (iv) Jerry Lewin did not timely file Form 4 after being issued 5,000 shares on February 1, 2018, however, the Form 4 corresponding to this transaction was subsequently filed March 13, 2018. As of the date of this report, all of the filings mentioned above have been made.

## Item Executive Compensation

11.

### Summary Compensation Table

The following table summarizes the compensation earned during the years ended December 31, 2018, 2017 and 2016, by the individuals who served as our Chief Executive Officer and Chief Financial Officer during any part of fiscal year 2018 or any other executive officer with total compensation in excess of \$100,000 during fiscal year 2018. The individuals listed in the table below are referred to as the “named executive officers”.

| Name and Principal Position   | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$)(3) | Option Awards (\$)(4) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$)   |
|---|------|-------------|------------|----------------------|-----------------------|---|--|-----------------------------|--------------|
| Hu Xiaoming(1)<br><i>CEO,<br/>President and<br/>Chairman of<br/>the Board</i> | 2018 | \$ 27,213   |            | \$ 459,000           | 340,056               | -   | -  | -                           | \$ 826,268   |
|   | 2017 | \$ 26,983   |            | \$ 425,000           | 1,326,217             | -   | -  | -                           | \$ 1,778,200 |
|   | 2016 | \$ 27,331   |            | \$ -                 | 3,060,500             | -   | -  | -                           | \$ 3,087,831 |
| Mei Bing(2)<br><i>Former CFO</i>  | 2018 | \$ 180,000  | -          | \$ 35,000            | -                     | -   | -  | -                           | \$ 215,000   |
|   | 2017 | \$ 180,000  | -          | \$ 35,000            | -                     | -   | -  | -                           | \$ 215,000   |
|   | 2016 | \$ 30,000   | -          | \$ -                 | -                     | -   | -  | -                           | \$ 30,000    |

(1) Mr. Hu was appointed as CEO and President of the Company on June 29, 2007.

(2) Mr. Mei was appointed as CFO of the Company on November 14, 2016 and resigned from his position as CFO on January 29, 2019.

(3) The amounts in this column reflect the aggregate grant date fair value under FASB ASC Topic 718 of awards made during the respective year.

(4) The amounts in this column reflect the aggregate grant date fair value under FASB ASC Topic 718 of awards made during the respective year

### Salary and Incentive Compensation

In fiscal 2018, the primary components of our executive compensation programs were base salary and equity compensation.

#### Salary

We use base salary to fairly and competitively compensate our executives, including the named executive officers, for the jobs we ask them to perform. We view base salary as the most stable component of our executive compensation program, as this amount is not at risk. We believe that the base salaries of our executives should be targeted at or above the median of base salaries for executives in similar positions with similar responsibilities at comparable companies, consistent with our compensation philosophy. At the end of the year, each executive's performance is evaluated by our Compensation Committee, which takes into account the individual's performance, responsibilities of the position, adherence to our core values, experience, and external market conditions and practices.



### *Incentive Compensation*

We believe it is a customary and competitive practice to include an equity-based element of compensation to the overall compensation package for our named executive officers. We believe that a significant portion of the compensation paid to our named executive officers should be performance-based and therefore at risk. Awards made are granted under the Kandi Technologies Group, Inc. Omnibus Long-Term Incentive Plan (the "Plan").

At our 2008 annual shareholders meeting, our stockholders approved the adoption of the Plan. As of December 31, 2016, 2,600,000 options have been granted under the Plan to the Company's employees and directors, of which 2,593,332 have been exercised, and 6,668 have been forfeited.

On December 30, 2013, the Board of Directors approved a proposal (as submitted by the Compensation Committee) of an award for selected executives and other key employees comprising a total of 335,000 shares of common stock for each fiscal year beginning with the 2013 fiscal year under the Plan to be delivered upon the Company's determination that the Company's "Non-GAAP Net Income" for the fiscal year increased by 10%. "Non-GAAP Net Income" means the Company's net income for a particular year calculated in accordance with GAAP, excluding option-related expenses, stock award expenses, and the effects caused by the change of fair value of financial derivatives. For example, if Non-GAAP Net Income for the 2013 fiscal year increases by 10% compared to the Non-GAAP Net Income for the 2012 fiscal year, the selected executives and other key employees will each be granted his or her target amount of common stock of the Company at the end of March 2014. If Non-GAAP Net Income in 2013 is less than Non-GAAP Net Income in 2012, then no common stock will be granted. If Non-GAAP Net Income in 2013 increases compared to Non-GAAP Net Income in 2012 but the increase is less than 10%, then the target amount of the common stock grant will be proportionately decreased. If Non-GAAP Net Income in 2013 increases compared to Non-GAAP Net Income in 2012 but the increase is more than 10%, then the target amount of the common stock grant will be proportionately increased.

On July 25, 2014, the Board of Directors approved a proposal submitted by the Compensation Committee to modify the languages of stock awards in the Board Resolution of December 30, 2013. The modification was to replace the language stating "in the future years the stock grant amount will be adjusted accordingly based on the Non-GAAP net income in 2013 and the Exhibit A attached hereto; if the Non-GAAP net income in one year is less than the Non-GAAP net income in the previous year, then no stock will be granted in that year; if the Non-GAAP net income continues increasing, the stock grant amount will increase according to the Non-GAAP net income increase percentage" with language stating "in the future years if the Non-GAAP net income in one year increases 10% compared with the previous year, the total amount of stock listed in the Exhibit A attached to the original Resolutions will be granted to certain employees (management of the Company is authorized to determine list of employees and stock amount rewarded based on position adjustment of employees, performance and tenure of each employee in that year); if the Non-GAAP net income in one year is less than the Non-GAAP net income in the previous year, then no stock will be granted in that year; if the Non-GAAP net income in one year is 10% less than or 10% more than the Non-GAAP net income in the previous year, then the stock grant amount will decrease or increase according to the Non-GAAP net income decrease or increase percentage, but the total amount rewarded may not be over 200%."

On May 20, 2015, the shareholders of the Company approved an increase of 9,000,000 shares under the Plan at its annual meeting. The fair value of each award granted under the Plan is determined based upon the closing price of the Company's stock on the date of grant of the award. To the extent that the performance goal is not met and so no shares become due, no compensation cost is recognized and any recognized compensation cost during the applicable year is reversed. The number of shares of common stock granted under the Plan with respect to fiscal 2014 was 670,000 shares based on the Non-GAAP Net Income of 2014. Compensation expense is recognized in General and Administrative Expenses. On April 23, 2015 and June 7, 2015, the Company granted 550,000 shares and 120,000 shares, respectively, to the senior management and key employee as year 2014 performance awards. On April 13, 2016, the Company granted 670,000 shares to the senior management and key employee as year 2015 performance awards. In February 2017, the Board of Directors authorized the Company to grant 246,900 shares to a list of management members as compensation for their past services pursuant to Section 11 of the Company's 2008 plan. On September 26, 2016, the Board approved the termination of the previous Board's Pre-Approved Award Grant Sub-Plan under the 2008 Plan and adopted a new plan to reduce the total number of shares of common stock of the stock award for select executives and key employees from 335,000 shares of common stock to 250,000 shares of common stock for each fiscal year and the other terms were as same as before.

On May 29, 2015, the Compensation Committee of the Board of Directors of the Company approved the grant of stock options to purchase 4,900,000 shares of common stock at an exercise price of \$9.72 per share to the Company's senior staff. The stock options will vest ratably over three years and expire on the tenth anniversary of the grant date. As of December 31, 2018, no option shares were exercised. The granted stock option to the directors and officers are as below:

| <b>Name</b> | <b>stock options</b> |
|-------------|----------------------|
| Hu Xiaoming | 900,000              |

## Outstanding Equity Awards at 2018 Fiscal Year-End

The following table sets forth information regarding all unexercised, outstanding equity awards held, as of December 31, 2018, by those individuals who served as our named executive officers during any part of fiscal year 2018.

| Name                  | Number of Securities underlying Unexercised Exercisable | Number of Securities underlying Unexercised Options(#) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
|-----------------------|---|--|---|----------------------------|------------------------|---|--|---|--|
| Hu Xiaoming<br>(1)(2) | 900,000   | -  | -   | \$ 9.72                    | 5/28/2025              | -   | -  | -   | -  |

(1) Mr. Hu was appointed as CEO and President of the Company on June 29, 2007.

(2) The grant date fair value of each share of common stock option is \$9.72, calculated in accordance with FASB Topic 718.

### Employment Agreements

We have employment agreements with our named executive officers. The agreements provide an annual salary for Mr. Hu and Mr. Mei, with bonuses to be decided at the discretion of our Board at year-end. The employment agreements for Mr. Hu has a three (3) year term, ending on June 9, 2020, and the employment agreements for Mr. Mei has a three (3) year term, ending on November 13, 2019. Mr. Mei resigned from his position as the Company's CFO on January 29, 2019.

### Potential Payments Upon Termination or Change of Control

Under Chinese law, we may only terminate employment agreements without cause and without penalty by providing notice of non-renewal one month prior to the date on which the employment agreement is scheduled to expire. If we fail to provide this notice or if we wish to terminate an employment agreement in the absence of cause, as defined in the agreement, then we are obligated to pay the employee one month's salary for each year we have employed the employee. We are, however, permitted to terminate an employee for cause without penalty pursuant to the employee's employment agreement. If the named executive officer is not terminated for cause, the Company will pay the remaining portion of the executive officer's salary.

## Director Compensation (excluding Named Executive Officers)

The following table sets forth certain information regarding the compensation earned by or awarded during the 2018 fiscal year to each of our non-executive directors:

| Name        | Fees Earned or Paid in Cash (\$)(2) | Stock Awards (\$) (1)(2) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings | All Other Compensation (\$) | Total (\$) |
|-------------|-------------------------------------|--------------------------|--------------------|---|---|-----------------------------|------------|
| Lin Yi      | \$ 8,725                            | -                        | -                  | -   | -   | -                           | \$ 8,725   |
| Henry Yu    | \$ 24,000                           | 18,100                   | -                  | -   | -   | -                           | \$ 42,100  |
| Jerry Lewin | \$ 24,000                           | 26,500                   | -                  | -   | -   | -                           | \$ 50,500  |
| Chen Liming | \$ 9,071                            | -                        | -                  | -   | -   | -                           | \$ 9,071   |
| Zhu Feng    | \$ 8,725                            | -                        | -                  | -   | -   | -                           | \$ 8,725   |

(1) The amounts in these columns represent the aggregate grant date fair value of stock awards granted to our non-named executive officer directors during the fiscal year ended December 31, 2018, in accordance with ASC Topic 718. In connection with his appointment to the Board of Directors in July 2011, the Board of Directors authorized the Company to issue to Mr. Yu with 5,000 shares of Company's restricted common stock every six months, par value \$0.001. The closing stock price at the grant date is \$2.65 per share. Similarly, in August 2011, the Board of Directors authorized the Company to issue to Mr. Lewin with 5,000 shares of Company's restricted common stock every six months, par value \$0.001. The closing stock price at the grant date is \$1.81 per share. As of December 31, 2018, 70,000 shares of restricted common stock had been issued to Mr. Lewin and Mr. Yu, respectively.

(2) In setting director compensation, we consider the significant amount of time that directors spend fulfilling their duties to the Company, as well as the skill level required to serve as a director and manage the affairs of the Company. Certain directors receive a monthly fee as follows: (i) Lin Yi receives a monthly fee of RMB 5,000 (approximately \$740) starting May 2017; (ii) Jerry Lewin receives a monthly fee of \$2,000; (iii) Henry Yu receives a monthly fee of \$2,000; and (iv) Chen Liming receives a monthly fee of RMB 5,000 (approximately \$740) starting 2014.

The aggregate number of stock options and restricted outstanding, as of December 31, 2018, for each of the non-named executive officer directors were as follows:

| Name        | Options | Restricted stock |
|-------------|---------|------------------|
| Henry Yu    | 0       | 102,836          |
| Chen Liming | 0       | 0                |
| Lin Yi      | 0       | 0                |
| Jerry Lewin | 0       | 70,000           |
| Zhu Feng    | 0       | 0                |

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information known to us, as of March 8, 2019, relating to the beneficial ownership of shares of common stock by each person who is known by us to be the beneficial owner of more than five percent (5%) of the outstanding shares of common stock; each director; each executive officer; and all executive officers and directors as a group. We believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock shown as being owned by them. The applicable percentages of ownership are based on an aggregate of 51,496,944 shares of our Common Stock outstanding on March 8, 2019.

| <b>Title of Class</b>      | <b>Name of Beneficial Owner</b> | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class</b> |
|----------------------------|---------------------------------|--|-------------------------|
| Common Stock               | Excelvantage Group Limited(3)   | 12,552,372(1)                                    | 24.37%                  |
| Common Stock               | Hu Xiaoming                     | 13,907,449(2)                                    | 27.01%                  |
| Common Stock               | Zhu Xiaoying                    | 643,992  | 1.25%                   |
| Common Stock               | Henry Yu                        | 107,836  | *                       |
| Common Stock               | Jerry Lewin                     | 75,000   | *                       |
| Common Stock               | Chen Liming                     | -  | -                       |
| Common Stock               | Lin Yi                          | -  | -                       |
| Common Stock               | Zhu Feng                        | -  | -                       |
| All officers and directors |                                 | 14,734,277                                       | 28.61%                  |

\* Less than 1%

(1) On March 29, 2010, Hu Xiaoming, our Chief Executive Officer, President and Chairman of the Board of Directors, became the sole stockholder of Excelvantage Group Limited. Through his position as the sole stockholder in Excelvantage Group Limited, Mr. Hu has the power to dispose of or direct the disposition of the shares of the ordinary shares in Excelvantage Limited Group. As a result, Mr. Hu may, under the rules of the Securities and Exchange Commission, be deemed to be the beneficial owner of the shares of common stock.

(2) Includes (i) 1,355,077 shares owned directly by Mr. Hu, (ii) 12,552,372 shares owned by Excelvantage Group Limited. As reflected in footnote 1, Mr. Hu may be deemed to be the beneficial owner of these shares.

(3) Principal offices located at Jinhua City Industrial Zone, Jinhua City, Zhejiang Province, China 321016.

#### **Item Certain Relationships and Related Transactions, and Director Independence.**

#### **13.**

##### *Transactions with Related Parties*

For the discussion of Transactions with Related Parties, please refer to Note 25 – Related Party Transactions under Item 8 Notes to Consolidated Financial Statements of the Company.

##### *Procedures For Approval of Related Party Transactions*

According to the Company policy on Related-Party Transactions (the “Policy”), a “Related Transaction” is “any transaction, includes, but not limited to, any financial transaction, arrangement, relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships, since the beginning of the Company’s last fiscal year, or any currently proposed transaction, and the amount involved exceeds \$120,000, and in which any related party had or will have a direct or indirect material interest”. The Policy’s definition of a “Related Party” is in line with the definition set forth in the instructions to Item 404(a) of Regulation S-K promulgated by the SEC.

Under the Policy, The Company's proposed material related transaction with related persons shall be submitted to the Board for consideration and discussion after an independent director presents his/her approval opinion beforehand. The Audit Committee shall conduct an audit on the related-party transaction and prepare a written opinion, and can engage independent financial advisers to issue a report as a basis for its judgment, then submit it to the Board. The Policy states that the Board meeting can be held as long as non-affiliated directors making up a majority of the Board attend, and any resolution made by the Board must be approved by a majority of non-affiliated directors.

*Director Independence*

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

**Item Principal Accounting Fees and Services.**

14.

The following table represents the aggregate fees from our current principal accountant, BDO China Shu Lun Pan Certified Public Accountants LLP for the years ended December 31, 2018 and 2017, respectively.

|                    | <b>2018</b>       | <b>2017</b>       |
|--------------------|-------------------|-------------------|
| Audit Fees         | \$ 420,000        | \$ 370,000        |
| Audit Related Fees | \$ -              | \$ -              |
| All Other Fees     | \$ 50,000         | \$ 5,000          |
| <b>TOTAL FEES</b>  | <b>\$ 470,000</b> | <b>\$ 375,000</b> |

Fees for audit services include fees associated with the annual audit and reviews of our quarterly reports. All other fees include fees incurred for services performed in connection with filing of tax returns and other costs.

## PART IV

### Exhibits, Financial Statement Schedules.

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 2.1                   | <a href="#">Share Exchange Agreement, dated June 29, 2007, by and among Stone Mountain Resources, Inc., Continental Development Limited and Excelvantage Group Limited. [Incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 6, 2007]</a>   |
| 3.1                   | <a href="#">Certificate of Incorporation. [Incorporated by reference from Exhibit 3.1 to Form SB-2 filed by the Company on April 1, 2005]</a>  |
| 3.2                   | <a href="#">Certificate For Renewal and Revival of Charter dated May 27, 2007. [Incorporated by reference from Exhibit 3.1 to the Company's Registration Statement on Form S-3 dated June 20, 2014]</a>  |
| 3.3                   | <a href="#">Certificate of Amendment of Certificate of Incorporation. [Incorporated by reference from Exhibit 4.2 to the Company's Form S-3, dated November 19, 2009; File No. 333-163222]</a>   |
| 3.4                   | <a href="#">Certificate of Amendment of Certificate of Incorporation. [Incorporated by reference from Exhibit 3.1 to the Company's Form 8-K, dated December 21, 2012]</a>  |
| 3.5                   | <a href="#">Bylaws. [Incorporated by reference from Exhibit 3.2 to Form SB-2 filed by the Company on April 1, 2005]</a>  |
| 10.1                  | <a href="#">Form of the Director Agreement. [Incorporated by reference from Exhibit 10.1 to the Company's Annual Report on Form 10-K filed on March 16, 2015]</a>  |
| 10.2                  | <a href="#">Form of the Employment Contract by and between Zhejiang Kandi Vehicles Co., Ltd. and the executive officer. [Incorporated by reference from Exhibit 10.2 to the Company's Annual Report on Form 10-K filed on March 16, 2015]</a>  |
| 10.3                  | <a href="#">Kandi Technologies, Corp. 2008 Omnibus Long-Term Incentive Plan [Incorporated by reference from Appendix A to the Company's Definitive Schedule 14A filed on November 24, 2008]</a>  |
| 10.4                  | <a href="#">Voting Agreement, dated January 21, 2010, by and between the Company and Excelvantage Group Limited. [Incorporated by reference from Exhibit 10.6 to the Company's Current Report on Form 8-K filed on January 21, 2010]</a>   |
| 10.5                  | <a href="#">The Agreement of Establishment Kandi New Energy Vehicles Co., Ltd., dated May 18, 2010, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Hu Xiaoming, and its supplement, dated January 31, 2011. [Incorporated by reference from Exhibit 10.13 to the Company's Annual Report on Form 10-K filed on March 31, 2011]</a> |
| 10.6                  | <a href="#">The Share Escrow and Trust Agreement, dated May 18, 2010, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Hu Xiaoming. [Incorporated by reference from Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on March 31, 2011]</a>   |
| 10.7                  | <a href="#">The Contractor Agreement, dated May 18, 2010, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Hu Xiaoming. [Incorporated by reference from Exhibit 10.15 to the Company's Annual Report on Form 10-K filed on March 31, 2011]</a>   |
| 10.8                  | <a href="#">Loan Agreement, dated January 31, 2011, by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Hu Xiaoming. [Incorporated by reference from Exhibit 10.1 to the Company's Form 10-Q filed on May 16, 2011]</a>   |

|         |  |
|---------|--|
| 10.9    | <a href="#"><u>Joint Venture Agreement of Establishment of Zhejiang Kandi Electric Vehicles Co., Ltd., by and between Zhejiang Kandi Vehicles Co., Ltd. and Shanghai Maple Guorun Automobile Co., Ltd., dated March 22, 2013. [Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 14, 2013]</u></a> |
| 10.10   | <a href="#"><u>Zhejiang Wanxiang Ener1 Power System Co., Ltd. Sales Contract, between JinhuaKandi New Energy Vehicles Co., Ltd. and Zhejiang Wanxiang Ener1 Power System Co., Ltd., dated October 23, 2013. [Incorporated by reference from Exhibit 10.26 to the Company's Annual Report on Form 10-K filed on March 17, 2014]</u></a>                   |
| 10.11   | <a href="#"><u>Form of Non-Qualified Stock Option Agreement pursuant to the 2008 Omnibus Long-Term Incentive Plan of Kandi Technologies Group, Inc. [Incorporated by reference from Exhibit 10.15 to the Company's Annual Report on Form 10-K filed on March 14, 2016]</u></a>   |
| 10.12   | <a href="#"><u>Employment Contract between Kandi Technologies Group, Inc. and Mei Bing dated November 14, 2016 [Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 18, 2016].</u></a>   |
| 10.13   | <a href="#"><u>English Translation of the Share Transfer Agreement by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Wang Xinhua dated December 12, 2017 [Incorporated by reference from Exhibit 10.18 to the Company's Annual Report on Form 10-K filed on March 16, 2018]</u></a>   |
| 10.14   | <a href="#"><u>English Translation of the Supplementary Agreement by and between Zhejiang Kandi Vehicles Co., Ltd. and Mr. Wang Xinhua dated December 12, 2017 [Incorporated by reference from Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on March 16, 2018]</u></a>  |
| 10.15   | <a href="#"><u>Membership Interest Transfer Agreement of Sportsman Country, LLC by and between David Shan, Johnny Tai and Kandi Technologies Group, Inc. dated May 31, 2017 (Bilingual) †</u></a>  |
| 14.1    | <a href="#"><u>Code of Business Conduct and Ethics. [Incorporated by reference from Exhibit 14.1 to the Company's Annual Report on Form 10-K filed on March 16, 2015]</u></a>  |
| 21.1    | <a href="#"><u>List of Subsidiaries of the Company†</u></a>  |
| 23.1    | <a href="#"><u>Consent of BDO China Shu Lun Pan Certified Accounting Firm†</u></a>   |
| 23.2    | <a href="#"><u>Consent of BDO China Shu Lun Pan Certified Accounting Firm†</u></a>   |
| 31.1    | <a href="#"><u>Certification of CEO pursuant to Rule 13a-14 under the Securities Exchange Act of 1934. †</u></a>   |
| 31.2    | <a href="#"><u>Certification of CFO pursuant to Rule 13a-14 under the Securities Exchange Act of 1934. †</u></a>   |
| 32.1    | <a href="#"><u>Certifications of CEO and CFO pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. †</u></a>   |
| 101.INS | XBRL Instance Document.  |
| 101.SCH | XBRL Taxonomy Extension Schema Document.   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.  |

† Exhibits filed herewith.



## SIGNATURES

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

KANDI TECHNOLOGIES GROUP, INC.

March 15, 2019

By: /s/ Hu Xiaoming  
Hu Xiaoming  
President and Chief Executive Officer

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

|   |  |                |
|---|--|----------------|
| <u>/s/ Hu Xiaoming</u><br>Hu Xiaoming   | President, Chief Executive Officer<br>and Chairman of the Board (Principal<br>Executive Officer) | March 15, 2019 |
| <u>/s/ Zhu Xiaoying</u><br>Zhu Xiaoying | Interim Chief Financial Officer<br>(Principal Financial Officer and<br>Accounting Officer)       | March 15, 2019 |
| <u>/s/ Chen Liming</u><br>Chen Liming   | Director   | March 15, 2019 |
| <u>/s/ Lin Yi</u><br>Lin Yi             | Director   | March 15, 2019 |
| <u>/s/ Jerry Lewin</u><br>Jerry Lewin   | Director   | March 15, 2019 |
| <u>/s/ Henry Yu</u><br>Henry Yu         | Director   | March 15, 2019 |
| <u>/s/ Zhu Feng</u><br>Zhu Feng         | Director   | March 15, 2019 |

**KANDI ELECTRIC VEHICLES GROUP CO., LTD.**  
**(the JV Company)**  
**AND SUBSIDIARIES FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2018 AND 2017**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Kandi Electric Vehicles Group Co., Ltd.

Opinion on the Consolidated Financial Statements

We have audited the accompanying balance sheets of Kandi Electric Vehicles Group Co., Ltd. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, the related statements of operations and comprehensive loss, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 15, 2019

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

**KANDI ELECTRIC VEHICLES GROUP CO., LTD AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

|   | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|------------------------------|------------------------------|
| <b>Current assets</b>   |                              |                              |
| Cash and cash equivalents   | \$ 8,870,229                 | \$ 11,621,752                |
| Restricted cash   | 27,328,293                   | 28,181,720                   |
| Short term investment   | -                            | -                            |
| Accounts receivable   | 168,450,107                  | 114,083,695                  |
| Inventories (net of provision for slow moving inventory of \$708,438 and \$748,690 as of December 31, 2018 and December 31, 2017, respectively)                     | 23,420,921                   | 60,199,634                   |
| Notes receivable  | 13,408,179                   | 637,958                      |
| Notes receivable from related parties   | -                            | -                            |
| Other receivables   | 22,973,686                   | 9,682,538                    |
| Prepayments and prepaid expense   | 12,124,436                   | 6,964,296                    |
| Due from employees  | 237,963                      | 10,286                       |
| Advances to suppliers   | 13,122,835                   | 814,813                      |
| Amount due from related parties (net of allowance for doubtful accounts of \$7,716,430 and \$8,154,865 as of December 31, 2018 and December 31, 2017, respectively) | 461,206,605                  | 464,486,394                  |
| <b>TOTAL CURRENT ASSETS</b>   | <b>751,143,254</b>           | <b>696,683,086</b>           |
| <b>LONG-TERM ASSETS</b>   |                              |                              |
| Property, Plant and equipment, net  | 80,619,997                   | 113,060,993                  |
| Land use rights, net  | 56,009,177                   | 60,699,650                   |
| Construction in progress  | 1,138,532                    | 108,998                      |
| Goodwill  | -                            | 1,720,677                    |
| Intangible assets   | 464,079                      | 141,656                      |
| Long term investment  | 675,777                      | 714,173                      |
| Other long term assets  | 1,828,738                    | 3,497,605                    |
| <b>TOTAL Long-Term Assets</b>   | <b>140,736,300</b>           | <b>179,943,752</b>           |
| <b>TOTAL ASSETS</b>   | <b>\$ 891,879,554</b>        | <b>\$ 876,626,838</b>        |
| <b>CURRENT LIABILITIES</b>  |                              |                              |
| Accounts payables   | \$ 205,658,883               | \$ 235,288,537               |
| Other payables and accrued expenses   | 15,203,688                   | 14,397,074                   |
| Short-term loans  | 162,512,361                  | 196,720,304                  |
| Customer deposits   | 66,650,547                   | 4,286,234                    |
| Notes payable   | 38,672,910                   | 16,855,088                   |
| Notes payable to related parties  | -                            | 21,055,220                   |
| Income tax payable  | 2,358,739                    | 560,978                      |
| Due to employees  | 27,806                       | 240                          |
| Due to related parties  | 142,626,531                  | 214,465,769                  |
| <b>Total Current Liabilities</b>  | <b>633,711,465</b>           | <b>703,629,444</b>           |
| <b>LONG-TERM LIABILITIES</b>  |                              |                              |
| Long term payable   | -                            | 30,737,547                   |
| <b>Total Long-Term Liabilities</b>  | <b>-</b>                     | <b>30,737,547</b>            |
| <b>TOTAL LIABILITIES</b>  | <b>633,711,465</b>           | <b>734,366,991</b>           |
| <b>STOCKHOLDER'S EQUITY</b>   |                              |                              |
| Capital   | 322,072,220                  | 163,559,045                  |
| Retained earnings   | (45,367,089)                 | (9,027,007)                  |
| Accumulated other comprehensive loss  | (18,537,042)                 | (12,272,191)                 |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>   | <b>258,168,089</b>           | <b>142,259,847</b>           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 891,879,554</b>        | <b>\$ 876,626,838</b>        |

**KANDI ELECTRIC VEHICLES GROUP CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

|  | Year Ended          |                      |                      |
|--|---------------------|----------------------|----------------------|
|  | December 31<br>2018 | December 31,<br>2017 | December 31,<br>2016 |
| REVENUES FROM UNRELATED PARTY, NET       | \$ 82,106,380       | \$ 45,811,048        | \$ 94,609,911        |
| REVENUES FROM RELATED PARTY, NET         | 40,374,474          | 146,937,280          | 84,718,758           |
| <b>REVENUES, NET</b>                     | <b>122,480,854</b>  | <b>192,748,328</b>   | <b>179,328,669</b>   |
| COST OF GOODS SOLD                       | (140,230,527)       | (189,148,693)        | (160,050,158)        |
| <b>GROSS (LOSS) PROFIT</b>               | <b>(17,749,673)</b> | <b>3,599,635</b>     | <b>19,278,511</b>    |
| <b>OPERATING EXPENSES:</b>               |                     |                      |                      |
| Research and development                 | (22,091,046)        | (6,877,906)          | (1,091,340)          |
| Selling and marketing                    | (6,557,654)         | (3,404,325)          | (8,782,574)          |
| General and administrative               | (22,747,608)        | (22,816,273)         | (20,235,584)         |
| <b>Total Operating Expenses</b>          | <b>(51,396,308)</b> | <b>(33,098,504)</b>  | <b>(30,109,498)</b>  |
| <b>LOSS FROM OPERATIONS</b>              | <b>(69,145,981)</b> | <b>(29,498,869)</b>  | <b>(10,830,987)</b>  |
| <b>OTHER INCOME (EXPENSE):</b>           |                     |                      |                      |
| Interest (expense)                       | (16,275,258)        | (13,264,847)         | (14,702,550)         |
| Interest income                          | 4,715,050           | 7,010,380            | 4,727,392            |
| Investment Income                        | 135,735             | 687,739              | -                    |
| Government grants                        | 35,058,086          | 12,145,483           | 1,682,386            |
| Loss on goodwill impairment              | (1,692,609)         | -                    | -                    |
| Other income, net                        | 16,050,667          | 755,009              | 6,984,107            |
| <b>Total other income (expense), net</b> | <b>37,991,671</b>   | <b>7,333,764</b>     | <b>(1,308,665)</b>   |
| <b>LOSS BEFORE INCOME TAXES</b>          | <b>(31,154,310)</b> | <b>(22,165,105)</b>  | <b>(12,139,652)</b>  |
| INCOME TAX EXPENSE                       | (5,185,772)         | (534,860)            | (2,015,926)          |
| <b>NET LOSS</b>                          | <b>(36,340,082)</b> | <b>(22,699,965)</b>  | <b>(14,155,578)</b>  |

**KANDI ELECTRIC VEHICLES GROUP CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

|  | Capital<br>Par Value         | Retained<br>Earnings          | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total                        |
|--|------------------------------|-------------------------------|--|------------------------------|
| <b><u>BALANCE AT DECEMBER 31, 2015</u></b> | <u>\$ 163,559,045</u>        | <u>\$ 27,828,536</u>          | <u>\$ (10,709,602)</u>                                 | <u>\$ 180,677,979</u>        |
| Foreign currency translation               | -                            | -                             | (11,174,778)   | (11,174,778)                 |
| Net loss                                   | -                            | (14,155,578)                  | -  | (14,155,578)                 |
| <b><u>BALANCE AT DECEMBER 31, 2016</u></b> | <u>\$ 163,559,045</u>        | <u>\$ 13,672,958</u>          | <u>\$ (21,884,380)</u>                                 | <u>\$ 155,347,623</u>        |
| Foreign currency translation               | -                            | -                             | 9,612,189  | 9,612,189                    |
| Net loss                                   | -                            | (22,699,965)                  | -  | (22,699,965)                 |
| <b><u>BALANCE AT DECEMBER 31, 2017</u></b> | <u>\$ 163,559,045</u>        | <u>\$ (9,027,007)</u>         | <u>\$ (12,272,191)</u>                                 | <u>\$ 142,259,847</u>        |
| Foreign currency translation               | -                            | -                             | (6,264,851)  | (6,264,851)                  |
| Shareholders' capital contribution         | 158,513,175                  | -                             | -  | 158,513,175                  |
| Net loss                                   | -                            | (36,340,082)                  | -  | (36,340,082)                 |
| <b><u>BALANCE AT DECEMBER 31, 2018</u></b> | <u><u>\$ 322,072,220</u></u> | <u><u>\$ (45,367,089)</u></u> | <u><u>\$ (18,537,042)</u></u>                          | <u><u>\$ 258,168,089</u></u> |

**KANDI ELECTRIC VEHICLES GROUP CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

|  | Year Ended             |                        |                         |
|--|------------------------|------------------------|-------------------------|
|  | December 31,<br>2018   | December 31,<br>2017   | December 31,<br>2016    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                       |                        |                        |                         |
| Net loss   | (36,340,082)           | (22,699,965)           | (14,155,578)            |
| Adjustments to reconcile net loss to net cash provided by operating activities     |                        |                        |                         |
| Depreciation and amortization  | 14,755,876             | 16,475,290             | 12,823,714              |
| Assets Impairments   | -                      | 271,056                | 457,478                 |
| Allowance for doubtful accounts  | -                      | 1,489,057              | 6,190,747               |
| Non-cash interest  | (4,318,943)            | (6,901,724)            | -                       |
| Payments of financing costs  | 2,130,907              | -                      | -                       |
| Loss on goodwill impairment  | 1,692,609              | -                      | -                       |
| Adjustment of research and development expense                                     | 17,355,547             | -                      | -                       |
| Gain on sale of Changxing Maintenance  | (135,735)              | -                      | -                       |
| <b>Changes in operating assets and liabilities, net of effects of acquisition:</b> |                        |                        |                         |
| <b>(Increase) Decrease In:</b>   |                        |                        |                         |
| Accounts receivable  | (190,186,275)          | (64,563,220)           | (40,300,455)            |
| Notes receivable   | 27,540,743             | 26,639,830             | 3,001,625               |
| Notes receivable from related parties  | -                      | 4,303,812              | 508,562                 |
| Inventories  | 34,844,007             | (36,488,000)           | (15,763,408)            |
| Other receivables and other assets   | (22,032,348)           | 770,315                | (3,252,153)             |
| Due from employee  | (208,593)              | (155)                  | 41,424                  |
| Advances to suppliers and Prepayments and prepaid expenses                         | (19,072,102)           | (1,032,980)            | (8,851,277)             |
| Due from related parties   | (108,052,380)          | (128,450,620)          | (220,361,618)           |
| <b>Increase (Decrease) In:</b>   |                        |                        |                         |
| Accounts payable   | 73,067,449             | 207,354,816            | 92,866,663              |
| Notes payable  | (19,301,394)           | (12,515,757)           | (29,671,669)            |
| Notes payable to related parties   | (20,711,759)           | (14,552,747)           | (46,883,721)            |
| Other payables and accrued liabilities   | (1,862,907)            | (13,818,563)           | 3,947,568               |
| Customer deposits  | 39,410,008             | (7,844,387)            | 7,884,758               |
| Income Tax payable   | 1,900,268              | 455,147                | (3,165,236)             |
| Due to related parties   | 267,848,573            | 91,598,392             | 131,436,041             |
| <b>Net cash provided by (used in) operating activities</b>                         | <b>\$ 58,323,469</b>   | <b>\$ 40,489,597</b>   | <b>\$ (123,246,535)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                       |                        |                        |                         |
| (Purchases)/Disposal of plant and equipment, net                                   | (2,876,747)            | (3,922,068)            | 282,683                 |
| Purchases of land use rights and other intangible assets                           | (385,797)              | (54,703)               | (2,651,794)             |
| Purchases of construction in progress  | (1,387,125)            | (220,361)              | (15,049)                |
| Sale of Changxing Maintenance  | (393,742)              | -                      | -                       |
| Long Term Investment   | -                      | (687,739)              | -                       |
| Short Term Investment  | -                      | -                      | 1,009                   |
| <b>Net cash used in investing activities</b>                                       | <b>\$ (5,043,411)</b>  | <b>\$ (4,884,871)</b>  | <b>\$ (2,383,151)</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                       |                        |                        |                         |
| Proceeds from short-term bank loans  | 217,246,697            | 214,450,628            | 130,921,567             |
| Repayments of short-term bank loans  | (241,813,564)          | (229,250,533)          | (132,426,413)           |
| Repayments of long-term payable  | (30,236,144)           | (3,107,980)            | (2,257,268)             |
| Payments of financing costs  | -                      | (1,672,947)            | -                       |
| <b>Net cash used in financing activities</b>                                       | <b>\$ (54,803,011)</b> | <b>\$ (19,580,832)</b> | <b>\$ (3,762,114)</b>   |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b>    |                        |                        |                         |
| <b>CASH</b>  | <b>(1,522,953)</b>     | <b>16,023,894</b>      | <b>(129,391,800)</b>    |
| Effect of exchange rate changes on cash  | (2,081,997)            | 2,080,432              | (4,553,609)             |
| <b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR</b>          | <b>39,803,472</b>      | <b>21,699,146</b>      | <b>155,644,555</b>      |
| <b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD</b>              | <b>36,198,522</b>      | <b>39,803,472</b>      | <b>21,699,146</b>       |
| <b>SUPPLEMENTARY CASH FLOW INFORMATION</b>   |                        |                        |                         |
| Interest paid  | 4,893,664              | 12,344,945             | 11,243,065              |
| Income taxes paid  | 3,142,368              | -                      | 4,151,135               |
| <b>SUPPLEMENTAL NON-CASH DISCLOSURES:</b>  |                        |                        |                         |
| Construction in progress transferred to property, plant and equipment              | 310,752                | 18,463,275             | 16,642,867              |
| Advances to suppliers transferred to construction in progress                      | -                      | 674,171                | 8,347,441               |
| Construction in progress reclassified to advances to suppliers                     | -                      | 3,202                  | -                       |
| Settlement of due to related parties with notes payables to related parties        | -                      | 30,166,647             | 24,488,021              |
| Settlement of accounts payable with notes payables                                 | 42,924,803             | 20,783,655             | 21,134,585              |
| Settlement of due from related parties with notes receivable from related parties  | 85,501,133             | 36,457,998             | 508,563                 |
| Settlement of accounts receivables with notes receivable                           | 127,220,152            | 71,243,296             | 39,296,921              |
| Settlement of other receivable with notes receivable                               | 11,374,776             | -                      | -                       |
| Assignment of notes receivable to supplier to settle accounts payable              | 16,322,574             | 15,148,547             | 11,607,627              |

|  |             |            |            |
|--|-------------|------------|------------|
| Assignment of notes receivable from related parties to supplier to settle accounts payable       | 1,164,092   | 28,214,377 | 7,340,637  |
| Assignment of notes receivable to supplier to settle due to related parties                      | 81,420,300  | 29,969,808 | 23,030,910 |
| Assignment of notes receivable from related parties to supplier to settle due to related parties | 84,337,041  | 4,439,972  | 4,356,528  |
| Due to related parties converted to equity   | 164,786,986 | -          | -          |



**KANDI ELECTRIC VEHICLES GROUP CO., LTD.  
AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

Kandi Electric Vehicles Group Co., Ltd. (the "JV Company"), located in the city of Hangzhou, Zhejiang Province, was incorporated under the laws of the People's Republic of China, and is principally engaged in the development, manufacture and sales of electric vehicles ("EVs") and related auto parts.

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 a JV Company shareholder on October 26, 2016, through its purchase of the 50% equity stake in the JV Company previously held by Shanghai Guorun at a premium (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, Zhejiang Geely Holding Group, Ltd. (Geely Holding) transferred its equity in the JV Company to Geely Group (Ningbo) Ltd., a company wholly owned by Mr. Li Shufu, Chairman of the Board of Geely Holding. On May 23, 2018, in order to obtain its manufacturing license, pursuant to a recent notice (FGBCY[2018] No.547) issued by the National Development and Reform Commission in China, the JV Company increased its registered capital by RMB 1.09 billion (approximately \$165 million), of which Kandi Vehicle increased its capital contribution to the JV Company by converting its RMB 545 million (approximately \$79 million) loans to the JV Company to registered capital in the JV Company. Geely Group, Ltd. ("Geely Group") became a new shareholder of the JV Company by investing RMB 545 million (approximately \$79 million). After this restructure, Kandi Vehicles, Geely Group and Geely Group (Ningbo) Ltd., each own 50%, 26.08%, and 23.92% of equity in the JV Company, respectively.

In March 2013, Kandi Vehicles formed Kandi Electric Vehicles (Changxing) Co., Ltd. ("KandiChangxing") in the Changxing (National) Economic and Technological Development Zone. KandiChangxing 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 KandiChangxing to the JV 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. In April 2017, Kandi Jinhua was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company.

In November 2013, Zhejiang Ji He Kang Electric Vehicle Sales Co., Ltd. ("Ji He Kang") was formed by the JV Company. JiHeKang is engaged in the car sales business. The JV Company has a 100% ownership interest in JiHeKang. In April 2017, JiHeKang was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company.

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.

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. Kandi Jiangsu is mainly engaged in EV research and development, manufacturing, and sales. As of the date of this report, Kandi Jiangsu directly owns 100% of JiHeKang, JiHeKang Service Company, Liuchuang and KandiJinhua.

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).

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. In April 2017, JiHeKang Service Company was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company. The JV Company has a 100% ownership interest in the JiHeKang Service Company.

In December 2015, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. Tianjin Branch (“JiHeKang Tianjin”) was formed by JiHeKang. JiHeKang Tianjin was engaged in the car sales business. JiHeKang Tianjin was dissolved in September 2018.

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.

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.

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 into an agreement with the JV Company to acquire 100% of Changxing Maintenance for RMB 1,089,887 or approximately \$167,501. The transaction was completed in April 2018.

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.

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.

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 KandiJinhua, JiHeKang, and the JiHeKang Service Company.

In December 2017, Zhejiang Chang Dian Technology Co., Ltd. ("Zhejiang Chang Dian") was formed by the JV Company. Zhejiang Chang Dian is primarily engaged in the battery replacement business. Zhejiang Chang Dian is 100% owned by the JV Company.

In March 2018, Jiangsu Gu Xiang New Energy Technology Co., Ltd. ("Jiangsu Gu Xiang") was formed by Zhejiang Chang Dian. Jiangsu Gu Xiang is primarily engaged in technical research, development, services and consultation of new energy vehicles, battery replacement and maintenance, and other business.

In April 2018, Zhejiang Chang Dian Technology Co., Ltd. Hangzhou Tonglu Branch ("Chang Dian Tonglu") was formed by Zhejiang Chang Dian. Chang Dian Tonglu is primarily engaged in the battery replacement business.

In April 2018, Zhejiang Chang Dian Technology Co., Ltd. Changxing Branch ("Chang Dian Changxing") was formed by Zhejiang Chang Dian. Chang Dian Changxing is primarily engaged in the battery replacement business.

As of December 31, 2018, the JV Company consolidated the following entities on its financial statements: (1) its 100% interest in KandiChangxing; (2) its 100% interest in Zhejiang Chang Dian and each of its three direct wholly-owned subsidiaries, i.e., Chang Dian Tonglu, Chang Dian Changxing and JiangsuGu Xiang; (3) its 100% interest in Kandi Shanghai; (4) its 100% interest in Kandi Jiangsu and each of its four direct wholly-owned subsidiaries, i.e., JiHeKang, JiHeKang Service Company, Liuchuang and KandiJinhua; and (5) 100% interest in each of the directly wholly-owned subsidiaries of JiHeKang, i.e., Tianjin BoHaiWan, Jiangsu JiDian, and Guangdong JiHeKang.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

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

### (b) 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 the disclosure of contingent assets and liabilities on 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 may differ from those estimates.

(c) Economic and Political Risks

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

The JV 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 JV Company's performance may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

(d) Cash and Cash Equivalents

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

Restricted cash, as of December 31, 2018 and December 31, 2017, represented the deposits reserved for bank acceptance notes. As of December 31, 2018 and December 31, 2017, the Company's restricted cash was \$27,328,293 and \$28,181,720.

(e) Inventories

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

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

(f) Accounts Receivable and Amount Due from Related Parties

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts is recorded in periods in which the JV Company determines a loss is probable, based on its assessment of specific factors, such as troubled collections, historical experience, accounts aging, ongoing business relations and other factors. Accounts are written off after an exhaustive collection effort. If accounts receivable are to be provided for, or written off, they are recognized in the consolidated statement of operations within the operating expenses line item. As of December 31, 2018 and December 31, 2017, the JV Company had allowance for doubtful accounts of \$7,716,430 and \$8,154,865, respectively, as per the management's judgment based on their best knowledge.

As of December 31, 2018 and December 31, 2017, the credit terms with the Company's customers were typically 180 to 360 days after delivery.

(g) Notes receivable

Notes receivable represent short-term loans to third parties with the maximum term of one year. Interest income will be recognized according to each agreement between a borrower and the JV Company on an accrual basis. If notes receivable are paid back or written off, that transaction will be recognized in the relevant year. If notes receivable are paid back, or written off, that transaction will be recognized in the relevant year if the loan default is probable, reasonably assured and the loss can be reasonably estimated. The JV Company will recognize income if the written-off loan is recovered at a future date. In case of any foreclosure proceedings or legal actions being taken, the JV Company provides an accrual for the related foreclosure expenses and related litigation expenses. The JV Company receives notes receivable from the other parties to settle the accounts receivable. If the JV Company wants to discount the notes receivables for the purpose of receiving immediate cash, the current discount rate is approximately in the range of 3.50% to 4.50% annually. As at the end of December 31, 2018 and 2017, the JV Company had notes receivables from unrelated parties of \$13,408,179 and \$637,958.

(h) Property, Plant and Equipment

Property, Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the assets 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  |
| Other                   | Various  |

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 statements of income. The cost of maintenance and repairs is charged to expense as incurred, whereas significant renewals and betterments are capitalized.

(i) Construction in Progress

Construction in progress ("CIP") represents the direct costs of construction, the acquisition cost of buildings or machinery. 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. No interest expense has been capitalized for CIP as of December 31, 2018, as the JV Company did not get loans for CIP.

(j) Land Use Rights

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

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

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

During the reporting period, no impairment loss was recognized.

(l) Goodwill

The JV 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 JV 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.

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 JV 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 JV Company performs a quantitative impairment test.

As of December 31, 2018, the JV Company determined that its goodwill was impaired. The losses on goodwill impairment were \$1,692,609, \$0 and \$0 for the years ended December 31, 2018, 2017 and 2016, respectively.

(m) Intangible assets

Intangible assets consist of software and technologies. Such assets are being amortized over their estimated useful lives of 9.7 years. Intangible assets were amortized as of December 31, 2018. The amortization expenses for intangible assets were \$42,695, \$17,067 and \$8,089 for the year ended December 31, 2018, 2017 and 2016, respectively.

(n) Revenue Recognition

Revenue represents the invoiced value of goods sold. Revenue is recognized when the JV 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 JV Company recognized revenue when the products and the risk they carry are transferred to the other party.

(o) Research and Development

Expenditures relating to the development of new products and processes, including significant improvements to existing products, are expensed as incurred. Research and development expenses were \$22,091,046, \$6,877,906 and \$1,091,340 for the years ended December 31, 2018, 2017 and 2016, respectively.

(p) Government Grants

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

For the years ended December 31, 2018, 2017 and 2016, \$35,058,086, \$12,145,483 and \$1,682,386, respectively, were received by the Company's subsidiaries from the PRC government.

(q) Income Taxes

The JV 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 management's best estimate on the most likely future tax consequences of events that have been recognized in our financial statements or tax returns and related future anticipation. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the JV Company is able to realize their benefits, or that future realization is uncertain.

(r) Foreign Currency Translation

The accompanying consolidated financial statements are presented in U. S. dollars. The functional currency of the JV Company is the RMB. Capital accounts of the 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 <http://www.oanda.com>.

|                                   | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|-----------------------------------|------------------------------|------------------------------|------------------------------|
| Period end RMB: USD exchange rate | 6.8764                       | 6.5067                       | 6.94585                      |
| Average RMB: USD exchange rate    | 6.6146                       | 6.7568                       | 6.64520                      |

(s) 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.



(t) Reclassification

The JV Company adopted ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash" in the first quarter of 2018. Certain amounts included in the 2017 and 2016 condensed consolidated statements of cash flows have been reclassified to conform to the 2018 financial statement presentation as follows:

The JV Company has included restricted cash of \$3,450,905 and \$28,181,720, respectively, with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows for the year ended December 31, 2017. As a result, the total amount at the beginning of the period on the statement of cash flows for the year ended December 31, 2017 has changed from \$18,248,241 to \$21,699,146; the total amount at the end of the period on the statement of cash flows for the year ended December 31, 2017 has changed from \$11,621,752 to \$39,803,472; and effect of exchange rate changes on the statement of cash of cash flows for the year ended December 31, 2017 has changed from \$940,745 to \$2,080,432.

The JV Company has included restricted cash of \$86,529,179 and \$3,450,905, respectively, with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows for the year ended December 31, 2016. As a result, the total amount at the beginning of the period on the statement of cash flows for the year ended December 31, 2016 has changed from \$69,115,376 to \$155,644,555; the total amount at the end of the period on the statement of cash flows for the year ended December 31, 2016 has changed from \$18,248,241 to \$21,699,146; and effect of exchange rate changes on the statement of cash of cash flows for the year ended December 31, 2016 has changed from \$(2,411,730) to \$(4,553,609).

The JV Company has eliminated the line item of restricted cash of \$(23,591,128) from the section of financing activities on the statement of cash flows for the year ended December 31, 2017. As a result, net cash used in financing activities of \$43,171,960 on the statement of cash flows for the year ended December 31, 2017 has changed to net cash used in financing activities of \$19,580,832. Net decreases in cash and cash equivalents and restricted cash of \$7,567,234 on the statement of cash flows for the year ended December 31, 2017 has changed to net increases in cash and cash equivalents and restricted cash of \$16,023,894.

The JV Company has eliminated the line item of restricted cash of \$80,936,395 from the section of financing activities on the statement of cash flows for the year ended December 31, 2016. As a result, net cash provided by financing activities of \$77,174,281 on the statement of cash flows for the year ended December 31, 2016 has changed to net cash used in financing activities of \$3,762,114. Net decrease in cash and cash equivalents and restricted cash of \$48,455,405 on the statement of cash flows for the year ended December 31, 2016 has changed to net decrease in cash and cash equivalents and restricted cash of \$129,391,800.

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS

Please refer to the discussion in Note 7- NEW ACCOUNTING PRONOUNCEMENTS in KANDI TECHNOLOGIES GROUP, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 4 - ACCOUNTS RECEIVABLE AND AMOUNT DUE FROM RELATED PARTIES

Accounts receivable from unrelated parties for the years ended December 31, 2018 and 2017 were summarized as follows:

|                                       | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---------------------------------------|------------------------------|------------------------------|
| Accounts receivable                   | \$ 168,450,107               | \$ 114,083,695               |
| Less: allowance for doubtful accounts | -                            | -                            |
| Accounts receivable, net              | <u>\$ 168,450,107</u>        | <u>\$ 114,083,695</u>        |

Accounts receivable from related parties for the years ended December 31, 2018 and 2017 were summarized as follows:

|                                       | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---------------------------------------|------------------------------|------------------------------|
| Amount due from related parties       | \$ 468,923,035               | \$ 472,641,259               |
| Less: allowance for doubtful accounts | (7,716,430)                  | (8,154,865)                  |
| Amount due from related parties, net  | <u>\$ 461,206,605</u>        | <u>\$ 464,486,394</u>        |

NOTE 5 - INVENTORIES

Inventories for the years ended December 31, 2018 and 2017 were summarized as follows:

|  | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|------------------------------|------------------------------|
| Raw material                                   | \$ 17,464,827                | \$ 13,977,111                |
| Work-in-progress                               | 641,427                      | 25,159,093                   |
| Finished goods                                 | 6,023,105                    | 21,812,120                   |
| Total inventories                              | 24,129,359                   | 60,948,324                   |
| Less: provision for slowing moving inventories | (708,438)                    | (748,690)                    |
| Inventories, net                               | <u>\$ 23,420,921</u>         | <u>\$ 60,199,634</u>         |

NOTE 6 - NOTES RECEIVABLE

Notes Receivable from unrelated parties for the years ended December 31, 2018 and 2017 were summarized as follows:

|                            | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|----------------------------|------------------------------|------------------------------|
| Notes receivable as below: |                              |                              |
| Bank acceptance notes      | \$ 13,408,179                | \$ 637,958                   |
| Notes receivable           | <u>\$ 13,408,179</u>         | <u>\$ 637,958</u>            |

Details of Notes Receivable from unrelated parties as of December 31, 2018 were as follows:

| <b>Index</b> | <b>Amount (\$)</b> | <b>Counter party</b>                                   | <b>Relationship</b> | <b>Nature</b>      | <b>Manner of settlement</b> |
|--------------|--------------------|--|---------------------|--------------------|-----------------------------|
| 1            | 13,088,244         | Nantong Huiye Supply Chain Technology Co., Ltd.        | Unrelated           | Payments for sales | Not due                     |
| 2            | 319,935            | Taizhou Jiyue Electric Vehicle Sales Service Co., Ltd. | Unrelated           | Payments for sales | Not due                     |

Details of Notes Receivable from unrelated parties as of December 31, 2017 were as follows:

| <b>Index</b> | <b>Amount (\$)</b> | <b>Counter party</b>                         | <b>Relationship</b> | <b>Nature</b>      | <b>Manner of settlement</b> |
|--------------|--------------------|--|---------------------|--------------------|-----------------------------|
| 1            | 637,958            | Tianjin Zhongyuan Automobile Trade Co., Ltd. | Unrelated           | Payments for sales | Not due                     |

As a common business practice in China, the JV Company accepts notes receivables from its related and unrelated customers as a settlement for trade receivables.

#### NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, Plant and equipment for the years ended December 31, 2018 and 2017 consisted of the following:

|   | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|------------------------------|------------------------------|
| At cost:  |                              |                              |
| Buildings                                       | \$ 41,717,235                | \$ 43,529,541                |
| Machinery and equipment                         | 67,952,566                   | 89,026,227                   |
| Office equipment                                | 1,676,330                    | 1,691,979                    |
| Motor vehicles                                  | 368,276                      | 2,867,744                    |
| Moulds and others                               | 22,423,738                   | 22,036,565                   |
|   | <u>134,138,145</u>           | <u>159,152,056</u>           |
| Less: Accumulated depreciation                  |                              |                              |
| Buildings                                       | \$ (6,501,044)               | \$ (5,233,020)               |
| Machinery and equipment                         | (26,402,525)                 | (23,716,059)                 |
| Office equipment                                | (915,929)                    | (687,207)                    |
| Motor vehicles                                  | (212,123)                    | (169,504)                    |
| Moulds and others                               | (19,486,527)                 | (16,285,273)                 |
|   | <u>(53,518,148)</u>          | <u>(46,091,063)</u>          |
| Less: provision for impairment for fixed assets | -                            | -                            |
| Plant and equipment, net                        | <u>\$ 80,619,997</u>         | <u>\$ 113,060,993</u>        |

As of December 31, 2018 and 2017, the net book value of plant and equipment pledged as collateral for the Company's bank loans were \$ 20,018,598 and \$16,381,095, respectively.

Depreciation expenses for the years ended December 31, 2018, 2017 and 2016 were \$13,229,658, \$15,020,463 and \$11,384,259, respectively.

NOTE 8 - LAND USE RIGHTS

The Company's land use rights consist of the following:

|                                | December 31,<br>2018 | December 31,<br>2017 |
|--------------------------------|----------------------|----------------------|
| Cost of land use rights        | \$ 63,250,907        | \$ 66,844,719        |
| Less: Accumulated amortization | (7,241,730)          | (6,145,069)          |
| Land use rights, net           | <u>\$ 56,009,177</u> | <u>\$ 60,699,650</u> |

As of December 31, 2018 and 2017, the net book value of the land use rights pledged as collateral for the Company's bank loans were \$ 48,083,467 and \$4,555,266 respectively.

The amortization expense for the years ended December 31, 2018, 2017 and 2016 were \$ 1,483,523, \$1,452,301 and \$1,160,956, respectively.

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

|            |                      |
|------------|----------------------|
| 2019       | \$ 1,483,523         |
| 2020       | 1,483,523            |
| 2021       | 1,483,523            |
| 2022       | 1,483,523            |
| 2024       | 1,483,523            |
| Thereafter | 48,591,563           |
| Total      | <u>\$ 56,009,177</u> |

NOTE 9 - CONSTRUCTION-IN-PROGRESS

Jiangsu Facility

In November 2013, the JV Company signed an agreement with Rugao city government in Jiangsu Province to invest a total of RMB 1.2 billion to develop a manufacturing factory in Rugao with an annual production of 100,000 sets of EV parts. Rugao facility is currently completed for basic construction. As of December 31, 2018, the CIP is the project of modifying the production line for the model EX3 and subsequent new models.

No depreciation is provided for CIP until such time as the facility is completed and placed into operation.

The contractual obligation under CIP of the JV Company as of December 31, 2018 is as follow:

| Project          | Total in CIP as of<br>December 31,<br>2018 | Estimate to<br>complete | Total contract<br>amount |
|------------------|--|-------------------------|--------------------------|
| Jiangsu Facility | \$ 1,138,532                               | \$ 4,598,555            | \$ 5,737,087             |
| Total            | \$ 1,138,532                               | \$ 4,598,555            | \$ 5,737,087             |

No interest expense has been capitalized for CIP for the years ended December 31, 2018, 2017 and 2016, respectively.

NOTE 10 - INTANGIBLE ASSETS

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

|                                     | December 31,<br>2018 | December 31,<br>2017 |
|-------------------------------------|----------------------|----------------------|
| Gross carrying amount:              |                      |                      |
| Software and Proprietary Technology | \$ 535,542           | \$ 173,776           |
| Less: Accumulated amortization      |                      |                      |
| Software and Proprietary Technology | \$ (71,463)          | \$ (32,120)          |
| Intangible assets, net              | \$ 464,079           | \$ 141,656           |

The aggregate amortization expenses for those intangible assets that continue to be amortized is reflected in amortization of intangible assets in the Statements of Income and Comprehensive Income and were \$ 42,695, \$17,067 and \$8,089 for the years ended December 31, 2018, 2017 and 2016, respectively.

Amortization expenses for the next five years and thereafter are as follows:

|              |           |                |
|--------------|-----------|----------------|
| 2019         | \$        | 42,695         |
| 2020         |           | 42,695         |
| 2021         |           | 42,695         |
| 2022         |           | 42,695         |
| 2023         |           | 42,695         |
| Thereafter   |           | 250,604        |
| <b>Total</b> | <b>\$</b> | <b>464,079</b> |

NOTE 11 - SHORT-TERM BANK LOANS

Short-term loans are summarized as follows:

|  | <u>December 31,</u><br><u>2018</u> | <u>December 31,</u><br><u>2017</u> |
|--|------------------------------------|------------------------------------|
| <b>Loans from Bank of China</b>  |                                    |                                    |
| Interest rate 4.35% per annum, due on June 4, 2018, guaranteed by the shareholders entrusted loans.  | \$ -                               | \$ 23,053,161                      |
| Interest rate 4.35% per annum, due on October 19, 2018, guaranteed by the shareholder.   | -                                  | 23,053,161                         |
| Interest rate 4.35% per annum, due on October 1, 2018, guaranteed by the shareholders entrusted loans.   | -                                  | 24,590,038                         |
| Interest rate 5.00% per annum, due on March 27, 2019, guaranteed by the shareholder.   | 21,813,740                         | -                                  |
| <b>Loans from Export Import Bank of China</b>  |                                    |                                    |
| Interest rate 6.05% per annum, due on December 5, 2018, secured by the assets of the Company.  | -                                  | 38,421,934                         |
| Interest rate 4.35% per annum, due on October 12, 2018, guaranteed by the shareholder.   | -                                  | 38,421,934                         |
| Interest rate 4.35% per annum, due on October 26, 2018, guaranteed by the shareholder.   | -                                  | 38,421,934                         |
| Interest rate 4.35% per annum, due on September 29, 2019, guaranteed by the shareholder.   | 36,356,233                         | -                                  |
| Interest rate 4.35% per annum, due on September 25, 2019, guaranteed by the shareholder.   | 36,356,233                         | -                                  |
| Interest rate 7.00% per annum, due on November 23, 2019, secured by the assets of the JV Company.  | 29,084,986                         | -                                  |
| <b>Loans from Jiangsu Rugao Rural Commercial Bank</b>  |                                    |                                    |
| Interest rate 4.35% per annum, due on July 28, 2018, guaranteed by the JV Company.   | -                                  | 4,610,632                          |
| Interest rate 6.00% per annum, due on July 23, 2019, guaranteed by the JV Company.   | 4,362,748                          | -                                  |
| Interest rate 6.00% per annum, due on July 26, 2019, guaranteed by the JV Company.   | 2,908,499                          | -                                  |
| <b>Loans from Bank of Nanjing</b>  |                                    |                                    |
| Interest rate 5.87% per annum, due on July 27, 2019, guaranteed by the JV Company and Rugao Development Zone.  | 4,362,748                          | -                                  |
| Interest rate 5.87% per annum, due on August 13, 2019, guaranteed by the JV Company and Rugao Development Zone.  | 4,362,748                          | -                                  |
| <b>Loans from China Merchants Bank</b>   |                                    |                                    |
| Interest rate 4.31% per annum, paid off on January 10, 2019, secured by bank acceptance notes.   | 9,888,895                          | -                                  |
| Interest rate 4.70% per annum, paid off on January 17, 2019, secured by bank acceptance notes.   | 2,835,786                          | -                                  |
| Interest rate 4.35% per annum, paid off on February 1, 2019, secured by the assets of the JV Company, guaranteed by the shareholders and Rugao Development Zone. | 10,179,745                         | -                                  |
| <b>Loans from China Merchants Bank</b>   |                                    |                                    |
| Interest rate 4.35% per annum, due on August 23, 2018, secured by the assets of the Company.   | -                                  | 6,147,510                          |
|  | <u>\$ 162,512,361</u>              | <u>\$ 196,720,304</u>              |

The interest expense of the short-term bank loans for the years ended December 31, 2018, 2017 and 2016 were \$ 9,747,446, \$12,754,456 and \$13,154,979, respectively.

As of December 31, 2018, the aggregate amount of short-term loans that was guaranteed by various third parties was \$0.

## NOTE 12 - NOTES PAYABLE

By issuing bank notes payables rather than paying cash to suppliers, the JV Company can defer the payments until the date the bank notes payable is due. Simultaneously, depending on the requirements of the banks, the JV Company may need to deposit restricted cash in banks to back up the bank notes payable, while the restricted cash deposited in the banks will generate interest income.

Notes payable for December 31, 2018 and 2017 were summarized as follows:

|                | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|----------------|------------------------------|------------------------------|
| Notes payable: | <u>38,672,910</u>            | <u>16,855,088</u>            |
| Total          | <u>\$ 38,672,910</u>         | <u>\$ 16,855,088</u>         |

Notes payable from related parties for December 31, 2018 and 2017 were summarized as follows:

|                                     | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-------------------------------------|------------------------------|------------------------------|
| Notes payable from related parties: | <u>-</u>                     | <u>21,055,220</u>            |
| Total                               | <u>\$ -</u>                  | <u>\$ 21,055,220</u>         |

A bank acceptance note is a promised future payment, or time draft, which is accepted and guaranteed by a bank and drawn on a deposit at the bank. The banker's acceptance specifies the amount of the funds, the date, and the person to which the payment is due.

After acceptance, the draft becomes an unconditional liability of the bank, but the holder of the draft can sell (exchange) it for cash at a discount to a buyer who is willing to wait until the maturity date for the funds in the deposit. \$25,803,793 and \$28,181,720 were held as collateral for the notes payable as of December 31, 2018 and December 31, 2017, respectively.

As a common business practice in China, the JV Company issues the notes payable to its related and unrelated suppliers as settlement for accounts payable.

NOTE 13 - Long Term Payable

In 2013, the JV Company signed an agreement with Rugao city government in Jiangsu Province to invest a total of RMB 1.2 billion to develop a manufacturing factory in Rugao with an annual production of 100,000 EVs. In order to assist the JV Company in developing this project, in 2015, the Rugao city local government provided the JV Company a total of RMB236,000,000 or approximately \$34 million of government assistance to be used exclusively for the Rugao project. Such grants had been recorded as long term payable prior to the receipt of the official governmental documents. As of December 31, 2018, all the long term payable has been recognized as government grant as the JV Company had received the required official governmental documents.

As of December 31, 2018 and 2017, the JV Company had long term payable amounting to \$0 and \$30,737,547, respectively, which were related to Rugao project.

NOTE 14 - INCOME TAXES

The applicable tax rate of the PRC Enterprise Income Tax ("EIT") was changed from 33% to 25% on January 1, 2008, according to the Corporate Income Tax Law. The JV Company was incorporated in the PRC and governed by the PRC tax laws. After the adjustment of non-deductible expenses, research and development super-deduction, under-accrued EIT for previous years and loss carry forward from previous years, income tax expense was \$5,185,772 for the year ended December 31, 2018.

Provision for income taxes consisted of the following:

|                  | For Year Ended December 31, |            |              |
|------------------|-----------------------------|------------|--------------|
|                  | 2018                        | 2017       | 2016         |
| PRC income taxes |                             |            |              |
| Current          | \$ 5,185,772                | \$ 534,860 | \$ 2,015,926 |
| Deferred         | -                           | -          | -            |
| Total            | \$ 5,185,772                | \$ 534,860 | \$ 2,015,926 |



NOTE 15 - COMMITMENTS AND CONTINGENCIES

Lease commitments

The JV Company recognizes lease expense on the straight-line basis over the term of the lease.

The JV Company entered into a tenancy agreement with an unrelated third party for the lease of Office Building in Hangzhou for a period of six years from August 1, 2014 to November 31, 2020. As of December 31, 2018, the annual rent for the factory premises was approximately \$892,080 (RMB 5,900,750).

The minimum future lease payments for the next five years and thereafter are as follows:

| <b>Period</b>       | <b>Unrelated<br/>third parties</b> | <b>related parties</b> | <b>Total</b>     |
|---------------------|------------------------------------|------------------------|------------------|
| 2019                | \$ 892,080                         | -                      | 892,080          |
| 2020                | 853,642                            | -                      | 853,642          |
| 2021                | -                                  | -                      | -                |
| 2022                | -                                  | -                      | -                |
| 2023 and thereafter | -                                  | -                      | -                |
| <b>Total</b>        | <b>\$ 1,745,722</b>                | <b>-</b>               | <b>1,745,722</b> |

Rental expense to unrelated third parties for the years ended December 31, 2018, 2017 and 2016 amounted to \$1,012,450, \$939,628 and \$805,346, respectively.

NOTE 16 - Related Party Transactions

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

The following table lists sales to related parties during 2018, 2017 and 2016:

|              | <b>2018</b>          | <b>2017</b>        | <b>2016</b>       |
|--------------|----------------------|--------------------|-------------------|
| Geely        | \$ 37,418,031        | 63,227,928         | 62,906,157        |
| Kandi        | -                    | -                  | -                 |
| ZZY          | 2,956,443            | 83,709,352         | 21,812,601        |
| <b>Total</b> | <b>\$ 40,374,474</b> | <b>146,937,280</b> | <b>84,718,758</b> |

The following table lists purchases from related parties during 2018, 2017 and 2016:

|       | <b>2018</b>          | <b>2017</b>        | <b>2016</b>        |
|-------|----------------------|--------------------|--------------------|
| Geely | \$ 13,339,225        | 5,590,205          | 55,660,567         |
| Kandi | 48,731,310           | 92,952,211         | 77,708,394         |
| ZZY   | 1,340,790            | 23,092,773         | 41,723,092         |
| Total | <u>\$ 63,411,325</u> | <u>121,635,189</u> | <u>175,092,053</u> |

The details for amounts due from related parties as of the December 31, 2018 and 2017 are as below:

|                                    | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|------------------------------------|------------------------------|------------------------------|
| Geely                              | \$ 244,939,030               | 240,279,146                  |
| Kandi                              | 118,273                      | -                            |
| ZZY                                | 223,865,732                  | 232,362,113                  |
| Less: Provision for doubtful debts | (7,716,430)                  | (8,154,865)                  |
| Total due from related parties     | <u>\$ 461,206,605</u>        | <u>464,486,394</u>           |

The details for amounts due to related parties as of the December 31, 2018 and 2017 were as below:

|                              | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|------------------------------|------------------------------|------------------------------|
| Geely                        | \$ 67,240,256                | 45,296,763                   |
| Kandi                        | 67,801,735                   | 162,329,623                  |
| ZZY                          | 7,584,540                    | 6,839,383                    |
| Total due to related parties | <u>\$ 142,626,531</u>        | <u>214,465,769</u>           |