

Kandi Technologies Corp
Form 10-K/A
October 06, 2008

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

FORM 10-K/A

(Amendment No.2)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007**

Commission file number 000-52186

KANDI TECHNOLOGIES, CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation
or organization)

87-0700927
(I.R.S. Employer
Identification No.)

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

(86-0579) 882239700

(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 Capital 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 o No x

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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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 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

As of March 31, 2008, there were 19,961,000 shares of the registrant's common stock, \$0.001 par value, issued and outstanding and 0 shares of the registrant's preferred stock, \$0.001 par value, issued and outstanding. The aggregate market value of the shares of common stock held by non-affiliates of the registrant on July 6, 2007 was approximately \$10,180,110*.

*Prior to July 6, 2007, no liquid market had existed for our common stock.

DOCUMENTS INCORPORATED BY REFERENCE: none.

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EXPLANATORY NOTE

Kandi Technologies, Corp. (the “Company”) received a comment letter dated July 21, 2008 from the Securities and Exchange Commission (the “SEC”) regarding Part II, Item 9A “Controls and Procedures.” Management had originally concluded that, based on the guidance provided by the Frequently Asked Questions of Management’s Report on Internal Control Over Financial Reporting and Disclosure in Exchange Act Periodic Reports published by the SEC (the “FAQ”), management’s assessment of internal control over financial reporting did not need to be included in the Form 10-K for the fiscal year ended December 31, 2007 (the “Original Filing”). After discussing with members of the SEC staff, management has concluded that its assessment of internal control over financial reporting was required to be filed as of the fiscal year ended December 31, 2007.

This amendment No. 2 to the Annual Report on Form 10-K/A of Kandi Technologies, Corp. (“Amendment No.2”) amends the Original Filing as follows:

- amend Item 1A to add risk factors associated with Management’s conclusions regarding its assessment of internal control over financial reporting;
- amend Item 9A(T) to include management’s assessment of internal control over financial reporting and also amend management’s conclusions regarding the effectiveness of the Company’s disclosure controls and procedures as of the end of the fiscal year covered by the report;
- revise the certifications of the Company’s Principal Executive Officer and Principal Financial Officer under Item 601(b)(31) of Regulation S-K to include the introductory language of paragraph 4 and the language of paragraph 4(b) of Item 601(b)(31);
- amend the cover page of the Original Filing to correct the number of outstanding shares of preferred stock; and
- include all of the financial statements and supplementary data of Item 8. The Company corrected a typographical error in the consolidated balance sheets to the Original Filing in Amendment No. 1 on Form 10-K/A (“Amendment No. 1”) filed with the SEC on May 8, 2008, but did not include all of the information under the Item, as required by Rule 12b-15 of the Securities Exchange Act of 1934, as amended. The disclosures, under Item 8, as amended by Amendment No. 1 have not changed.

This Amendment No. 2 should be read in conjunction with the Company’s periodic filings made with the SEC subsequent to the date of the Original Filing, including any amendments to those filings, as well as any Current Reports, filed on Form 8-K subsequent to the date of the Original Filing. In addition, in accordance with applicable rules and regulations promulgated by the SEC, this Form 10-K/A includes updated certificates from our Chief Executive Officer and Chief Principal Financial Officer as Exhibit 32.1. Except as otherwise stated herein, no other information contained in the Original Filing has been updated by this Amendment No. 2.

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 offering 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 Overall Business Operations

Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations.

We have a limited operating history, and have been in operation only since 2003. This limited operating history and the unpredictability of the machinery production industry, makes it difficult for investors to evaluate our businesses and future operating results. An investor in our securities must consider the risks, uncertainties and difficulties frequently encountered by companies in new and rapidly evolving markets. The risks and difficulties we face include challenges in accurate financial planning as a result of limited historical data and the uncertainties resulting from having had a relatively limited time period in which to implement and evaluate our business strategies as compared to older companies with longer operating histories.

We may not be able to maintain and/or comply with all applicable government regulation.

We are subject to extensive regulation by the central government and by the regional and local authorities of the People's Republic of China, where our business operations take place. We believe that we are currently in substantial compliance with all material governmental laws and regulations and maintain all material permits and licenses relating to our operations. Nevertheless, there can be no assurance that we will continue to be in substantial compliance with current laws and regulations, or whether we will be able to comply with any future laws and regulations. To the extent that new regulations are adopted, we will be required to conform its activities in order to comply with such regulations. Failure to comply with applicable laws and regulations could subject us to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on its business, operations and finances.

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

As our business operations generate noise, waste water, gaseous and other industrial wastes, we are required to comply with all national and local regulations regarding protection of the environment. We are in compliance with present 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. We believe that we have all necessary permits to conduct our business as it is presently conducted. If we fail to comply with present or future environmental regulations, however, we may be required to pay substantial fines, suspend production or cease operations. We use, generate and discharge toxic, volatile and otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations. Certain laws, ordinances and regulations could limit our ability to develop, use, or sell our products.

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 President, Mr. Hu Xiaoming. We do not maintain key man life insurance on any of our executive officers. If one or more 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 executives joins a competitor or forms a competing company, we may lose some of our customers. However, if any disputes arise between our executive officers and us, we cannot assure you, in light of uncertainties associated with the PRC legal system, the extent to which any of these agreements could be enforced in China, where some of our executive officers reside and hold some of their assets. See “—Risks Related to Doing Business in China— Uncertainties with respect to the PRC legal system could have a material adverse effect on us.”

Our success depends on attracting and retaining qualified personnel

We depend on a core management team. The loss of any of these individuals could prevent us from achieving our business objective. Our future success will depend in large part on our continued ability to attract and retain other highly qualified technical and management personnel, as well as personnel with expertise in government regulation. We face competition for personnel from other companies, domestically, and abroad. If our recruitment and retention efforts are unsuccessful, our business operations could suffer.

Lack of property and general liability insurance.

We do not carry any property insurance, general liability insurance, or any other insurance that covers the risks of our business operations. As a result, any material loss or damage to its properties or other assets, or personal injuries arising from its business operations would have a material adverse affect on its financial condition and operations.

Risks Relating to Our Vehicle Machinery Production Operations

We may be subject to significant potential liabilities as a result of production defect and product liability.

Through our machinery production operations, we may be subject to production defect and product liability, arising in the ordinary course of business. These claims are common to the machinery production industry and can be costly.

With respect to certain general liability exposures, including manufacturing defect and product liability, interpretation of underlying current and future trends, assessment of claims and the related liability and reserve estimation process is highly judgmental due to the complex nature of these exposures, with each exposure exhibiting unique circumstances. Furthermore, once claims are asserted for construction defects, it is difficult to determine the extent to which the assertion of these claims will expand geographically. We may not have sufficient funds available or adequate to cover any liability for damages, the cost of repairs, and/or the expense of litigation surrounding such claims, and future claims may arise out of uninsurable events or circumstances not covered by insurance and not subject to effective indemnification agreements with our subcontractors.

The vehicle machinery industry is highly competitive and we are subject to risks relating to competition that may adversely affect our performance.

We will be adversely impacted if we cannot compete effectively in the highly competitive vehicle machinery industry. Our continued success depends upon our ability to compete effectively in markets that contain numerous competitors, some of which may have significantly greater financial, marketing and other resources than we have. Competition may reduce fee structures, potentially causing us to lower our fees or prices, which may adversely impact our profits. New competition or existing competition that uses a business model that is different from our business model may put pressure on us to change our model so that we can remain competitive.

General economic conditions may negatively impact our results.

The consumption of entertainment products such as go-karts is dependant on continued economic growth, and the duration, pace and full extent of the current growth environment remains unclear. Moderate or severe economic downturns or adverse conditions may negatively affect our operations. These conditions may be widespread or isolated to one or more geographic regions. A tightening of the labor markets in one or more geographic regions may result in fewer and/or less qualified applicants for job openings in our facilities. Higher wages, related labor costs and the increasing cost trends in the may negatively impact our results as wages and related labor costs.

We must compete for customers.

The vehicle machinery industry is highly competitive. Some of our competitors may have substantially greater marketing and financial resources than we do, and they may improve their products, reduce their prices or expand or improve their marketing programs in ways that adversely affect our operating results.

Because we face intense competition from other machinery vehicle producers and many of our competitors have greater resources than we do, we may not be able to compete successfully and we may lose or be unable to gain market share.

The vehicle machinery production business is highly competitive and, therefore, we face substantial competition in connection with the marketing and sale of its projects. In general, such vehicles are price sensitive and affected by many factors beyond our control, including changes in consumer tastes, fluctuation commodity prices and changes in supply due to weather, production, and natural disaster. Our products face competition from other producers in the industry. Most of our competitors are well established, have greater financial, marketing, personnel and other resources, have been in business for longer periods of time than we have, and have projects that have gained wide customer acceptance in the marketplace.

Risks Related to Doing Business in China

Change in political and economic conditions.

Since our main country of business operations is China, our business operations and financial position are subject, to a significant degree, to the economic, political and legal developments in China.

China's government started implementing its economic reform policy in 1978, which has enabled China's economy to gradually transform from a "planned economy" to a "socialist market economy." In 1993, the concept of the socialist market economy was introduced into the Constitution of China, and the country has since accelerated development of a market economy. A noteworthy phenomenon in the recent development of China economy is that non-state owned enterprises such as private enterprises play an increasingly important role in China economy and the degree of direct control by China government over the economy is gradually declining.

China's government has been taking macro-economic austerity measures to suppress inflation and curb the pace of economic growth since July 1993. These measures include raising interest rates, tightening credit supply, delaying implementation of certain reform policies on pricing, enhancing financial supervision as well as tightening control on the granting of approval for property and infrastructure projects. However, since 1998, there has been deflation in China's economy and the current economic policies of China mainly focus on stimulating consumption and expansion of domestic demand.

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

Change in tax laws and regulations in China.

Various tax reform policies have been implemented in China in recent years. Interpretation of certain PRC tax policies is still awaiting guidance from the government. Moreover, there can be no assurance that the existing tax laws and regulations will not be revised or amended in the future.

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. Prior court decisions may be cited as persuasive authority but do not have a binding effect. Since 1979, the PRC government has been promulgating and amending the 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 PRC legal system continues to rapidly evolve, the interpretation of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. The legal system in the China cannot provide the investors with the same level of protection as in the U.S. The Company is governed by the law and regulations generally applicable to local enterprises. 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 law and regulations can be uncertain and unpredictable and therefore have restrictions on legal protections of foreign investors.

Changes in Currency Conversion Policies in China.

Renminbi (“Yuan” or “RMB”) is 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 further enhance the verification of the truthfulness of foreign exchange payments under the current account items of a China enterprise and has imposed strict requirements in respect of borrowings and repayments of foreign exchange debts from and to foreign creditors under the capital account items and creation of foreign security in favor of foreign creditors.

This may cause complicated procedures in foreign exchange payments to foreign creditors under the current account items and thus will affect the restrictions on borrowing of international commercial loans, creation of foreign security and borrowing of RMB under guarantees in foreign currencies. Furthermore, the value of RMB may become subject to supply and demand, which could be largely affected by the international economic and political environment and any fluctuations in the exchange rate of RMB could have an adverse effect on the operational and financial condition of its subsidiaries in China.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us, our management or the experts named in the prospectus.

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

Risks Relating to Ownership of Our Securities

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related rules and regulations, are creating uncertainty for public companies. We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional compliance costs we may incur or the timing of such costs. These new or changed laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by courts and regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

Maintaining appropriate standards of corporate governance and public disclosure may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, if we fail to comply with new or changed laws, regulations and standards, regulatory authorities may initiate legal proceedings against us and our business and our reputation may be harmed.

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

The stock markets have experienced significant price and trading volume fluctuations, and the market prices of companies listed on the NASDAQ Capital Market, the stock market in which shares of our common stock are listed, at times, have been volatile in the past and have experienced sharp share price and trading volume changes. The trading price of our common stock is likely to be volatile and could fluctuate widely in response to many of the following factors, 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; and
- 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.

One stockholder owns a substantial portion of our outstanding common stock, which may enable this stockholder to influence many significant corporate actions and in certain circumstances may prevent a change in control that would otherwise be beneficial to our other shareholders.

Excelvantage Group Limited controls approximately 60.12% of our outstanding shares of common stock. As a result, Excelvantage Group Limited could have a substantial impact on matters requiring the vote of the shareholders, including the election of our directors and most of our corporate actions. This control could delay, defer or prevent others from initiating a potential merger, takeover or other change in our 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.

If we fail to maintain the adequacy of our internal controls, our ability to provide accurate financial statements and comply with the requirements of the Sarbanes-Oxley Act of 2002 could be impaired, which could cause our stock price to decrease substantially.

Since, prior to becoming a public company in 2007, Kandi operated as a private company without public reporting obligations, and it had committed limited personnel and resources to the development of the external reporting and compliance obligations that would be required of a public company. Recently, we have taken measures to address and improve our financial reporting and compliance capabilities and we are in the process of instituting changes to satisfy our obligations in connection with joining a public company, when and as such requirements become applicable to us. Prior to taking these measures, we did not believe we had the resources and capabilities to do so. We plan to obtain additional financial and accounting resources to support and enhance our ability to meet the requirements of being a public company. We will need to continue to improve our financial and managerial controls, reporting systems and procedures, and documentation thereof. If our financial and managerial controls, reporting systems or procedures fail, we may not be able to provide accurate financial statements on a timely basis or comply with the Sarbanes-Oxley Act of 2002 as it applies to us. Any failure of our internal controls or our ability to provide accurate financial statements could cause the trading price of our common stock to decrease substantially.

Our common shares are thinly traded and, you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate such shares.

We cannot predict the extent to which an active public market for its common stock will be sustained. Our common shares have historically been sporadically or “thinly-traded,” meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent.

This situation is attributable to a number of factors, including the fact that we are a relatively small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we become more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained.

The market price for our common stock is particularly volatile given our status as a relatively small company with a small and thinly traded “float” and lack of current revenues that could lead to wide fluctuations in our share price. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by its shareholders may disproportionately influence the price of those shares in either direction. The price for its shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, an investment in our company is a speculative or “risky” investment due to our lack of revenues or profits to date and uncertainty of future market acceptance for current and potential products. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares

on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer.

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Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

We do not anticipate paying any cash dividends.

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

Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.

The change in value of the Renminbi against the U.S. dollar, Euro and other currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in approximately 2.1% appreciation of Renminbi against the U.S. dollar. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As a portion of our costs and expenses is denominated in Renminbi, the revaluation in July 2005 and potential future revaluation has and could further increase our costs. In addition, as we rely entirely on dividends paid to us by our operating subsidiaries, any significant revaluation of the Renminbi may have a material adverse effect on our revenues and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from this offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

If the Company were delisted from NASDAQ, our common stock could be subject to “penny stock” rules which could negatively impact our liquidity and our shareholders’ ability to sell their shares.

Our common stock is currently listed on the NASDAQ Capital Market. We must comply with numerous NASDAQ MarketPlace rules in order to continue the listing of our common stock on NASDAQ. There can be no assurance that we can continue to meet the rules required to maintain the NASDAQ listing of our common stock. If we are unable to maintain our listing on NASDAQ, the market liquidity of our common stock may be severely limited.

Volatility in Our Common Share Price May Subject Us to Securities Litigation.

The market for our common stock is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may, in the future, be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

The Elimination of Monetary Liability Against our Directors, Officers and Employees under Delaware law and the Existence of Indemnification Rights to 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 eliminate the liability of our directors for monetary damages to our company and shareholders, however we are prepared to give such indemnification to our directors and officers to the extent provided by Delaware law. We may also have contractual indemnification obligations under our employment agreements with our officers. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against 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.

Past Activities Of Stone Mountain and Our Affiliates May Lead to Future Liability.

Prior to Stone Mountain's entry into the share exchange agreement with Continental on June 29, 2007, Stone Mountain engaged in businesses unrelated to our current operations. Although the Stone Mountain Shareholders are providing certain indemnifications against any loss, liability, claim, damage or expense arising out of or based on any breach of or inaccuracy in any of their representations and warranties made regarding such acquisition, any liabilities relating to such prior business against which we are not completely indemnified may have a material adverse effect on us.

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

We believe that our current cash and cash equivalents, anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions 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 additional 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 you that financing will be available in amounts or on terms acceptable to us, if at all.

We have identified material weaknesses in our internal control over financial reporting which could continue to negatively impact our ability to report our results of operations and financial condition accurately and in a timely manner.

We have identified a number of material weaknesses in our internal control over financial reporting.

We have concluded that our internal control over financial reporting was not effective as of December 31, 2007 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations by the Treadway Commission. For a detailed description of these material weaknesses, see Item 9A(T), "Management's Report on Internal Controls over Financial Reporting." Each of our material weaknesses results in more than a remote likelihood that a material misstatement of the annual or interim financial statements that we prepare will not be prevented or detected. As a result, we must perform extensive additional work to obtain reasonable assurance regarding the reliability of our financial statements. Even with this additional work, given the number of material weaknesses identified, there is a risk of additional errors not being prevented or detected. Moreover, other material weaknesses may be identified.

We have extensive work remaining to remedy the material weaknesses in our internal control over financial reporting.

As noted in Item 9A(T), "Management's Report on Internal Controls over Financial Reporting" we have significant work remaining to remediate the material weaknesses in our internal control over financial reporting. There can be no assurance as to when all of the material weaknesses will be remediated. Until our remediation efforts are completed, management will continue to devote significant time and attention to these efforts, and we will continue to incur expenses associated with the additional procedures and resources required to prepare our consolidated financial statements. Certain of our remediation activities, such as training of our personnel to implement our reconciliation and review procedures, will result in additional costs.

If our internal control over financial reporting remains ineffective, our business and prospects may suffer.

If we are unsuccessful in implementing or following our remediation plan, or fail to update our internal control over financial reporting as our business evolves, we may not be able to timely or accurately report our financial condition, results of operations or cash flows or to maintain effective disclosure controls and procedures. If we are unable to report financial information in a timely and accurate manner or to maintain effective disclosure controls and procedures, we could be subject to, among other things, regulatory or enforcement actions, including a delisting from NASDAQ, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects and the market value of our common stock.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all 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.

Item 8. Financial Statements and Supplementary Data

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of:
Kandi Technologies Corp. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Kandi Technologies Corp. (Formerly Stone Mountain Resources, Inc.) and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 included in the Company's Item 9A(T) "Controls and Procedures" in the Annual Report on Form 10-K/A and, accordingly, we do not express an opinion thereon.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kandi Technologies Corp. (Formerly Stone Mountain Resources, Inc.) and subsidiaries as of December 31, 2007 and 2006 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting policies generally accepted in the United States of America.

/s/ Weinberg & Company, P.A.

Weinberg & Company, P.A.

Boca Raton, Florida
March 17, 2008

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

| | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,322,782 | \$ 1,034,017 |
| Restricted cash | 12,305,000 | 9,092,423 |
| Accounts receivable, net of allowance for doubtful accounts of \$4,819 and \$0 as of December 31, 2007 and 2006, respectively | 11,113,355 | 7,572,565 |
| Inventories | 3,293,529 | 5,463,179 |
| Notes receivable | 1,223,664 | 430,811 |
| Other receivables | 913,791 | 2,988,016 |
| Prepayments and prepaid expenses | 49,706 | 332,556 |
| Deposit for acquisition | 12,270,859 | - |
| Due from employees | 91,590 | 184,221 |
| Due from related parties | - | 31,901 |
| Deferred taxes | - | 99 |
| Total Current Assets | 42,584,276 | 27,129,788 |
| LONG-TERM ASSETS | | |
| Plant and equipment, net | 10,933,702 | 9,224,935 |
| Land use rights, net | 385,539 | 395,926 |
| Construction in progress | 1,321,832 | 307,158 |
| Deferred taxes | 405,006 | 2,784 |
| Total Long-Term Assets | 13,046,079 | 9,930,803 |
| TOTAL ASSETS | \$ 55,630,355 | \$ 37,060,591 |

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, | December 31, |
|--|----------------------|----------------------|
| | 2007 | 2006 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 6,425,261 | \$ 6,626,826 |
| Other payables and accrued expenses | 406,357 | 307,453 |
| Tax payable | - | 2,953 |
| Short-term bank loans | 22,373,807 | 9,163,737 |
| Current portion of long-term bank loan | - | 1,920,934 |
| Customer deposits | 742,195 | 601,168 |
| Notes payable | 12,324,047 | 10,779,563 |
| Deferred taxes | 17,676 | - |
| Due to employees | 310 | - |
| Total Current Liabilities | 42,289,653 | 29,402,634 |
| LONG-TERM LIABILITIES | | |
| Deferred taxes | 299,161 | 81,195 |
| Total Long-Term Liabilities | 299,161 | 81,195 |
| TOTAL LIABILITIES | 42,588,814 | 29,483,829 |
| COMMITMENTS | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 19,961,000 and 12,000,000 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively | 19,961 | 12,000 |
| Additional paid-in capital | 7,138,105 | 7,154,193 |
| Retained earnings | 5,125,120 | 96,024 |
| Accumulated other comprehensive income | 758,355 | 314,545 |
| TOTAL SHAREHOLDERS' EQUITY | 13,041,541 | 7,567,762 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 55,630,355 | \$ 37,060,591 |

See notes to consolidated financial statements

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2007 | 2006 |
|--|---------------|---------------|
| REVENUES | \$ 34,702,168 | \$ 14,480,836 |
| COST OF GOODS SOLD | 27,235,275 | 11,884,462 |
| GROSS PROFIT | 7,466,893 | 2,596,374 |
| Research and development | 112,489 | 103,785 |
| Selling and marketing | 1,137,493 | 289,408 |
| General and administrative | 1,027,843 | 411,306 |
| TOTAL OPERATING EXPENSES | 2,277,825 | 804,499 |
| INCOME FROM OPERATIONS | 5,189,068 | 1,791,875 |
| Interest expense, net | (1,206,299) | (836,056) |
| Government grants | 15,430 | 97,806 |
| Forgiveness of debt | 161,835 | 29,324 |
| Forfeiture of customer deposits | 505,207 | - |
| Other expense, net | (8,650) | (3,725) |
| INCOME BEFORE INCOME TAXES | 4,656,591 | 1,079,224 |
| INCOME TAX (BENEFIT) EXPENSE | (372,505) | 69 |
| NET INCOME | 5,029,096 | 1,079,155 |
| OTHER COMPREHENSIVE INCOME | | |
| Foreign currency translation gain | 662,403 | 236,114 |
| Income tax expense related to other comprehensive income | (218,593) | (77,918) |
| OTHER COMPREHENSIVE INCOME, NET OF TAX | 443,810 | 158,196 |
| COMPREHENSIVE INCOME | \$ 5,472,906 | \$ 1,237,351 |
| WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED | 16,056,838 | 12,000,000 |
| NET INCOME PER COMMON SHARE, BASIC AND DILUTED | \$ 0.31 | \$ 0.10 |

See notes to consolidated financial statements

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | Common Stock Shares | Par Value | Additional Paid-in Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income | Total |
|--|------------------------|--------------|----------------------------------|-----------------------------------|---|---------------|
| <u>BALANCE AT JANUARY 1, 2006</u> | 12,000,000 | 12,000 | \$ 7,154,193 | \$ (983,131) | \$ 156,349 | \$ 6,339,411 |
| Foreign currency translation gain | - | - | - | - | 158,196 | 236,114 |
| Net income | - | - | - | 1,079,155 | - | 1,079,155 |
| <u>BALANCE AT DECEMBER 31, 2006</u> | 12,000,000 | \$ 12,000 | \$ 7,154,193 | \$ 96,024 | \$ 314,545 | \$ 7,654,680 |
| Recapitalization | 7,961,000 | 7,961 | (16,088) | - | - | (8,127) |
| Foreign currency translation gain | - | - | - | - | 443,810 | 662,403 |
| Net income | - | - | - | 5,029,096 | - | 5,029,096 |
| <u>BALANCE AT DECEMBER 31, 2007</u> | 19,961,000 | \$ 19,961 | \$ 7,138,105 | \$ 5,125,120 | \$ 758,355 | \$ 13,338,052 |

See notes to consolidated financial statements

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2007 | 2006 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 5,029,096 | \$ 1,079,155 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,453,253 | 943,827 |
| Provision for doubtful accounts | 4,819 | - |
| Loss on disposal of fixed assets | 35,049 | (1,049) |
| Deferred taxes | (385,074) | (2,842) |
| Forgiveness of debt | (161,834) | (48,467) |
| Forfeiture of customer deposits | (505,207) | - |
| Changes in operating assets and liabilities, net of effects of acquisition: | | |
| (Increase) Decrease In: | | |
| Accounts receivable | (3,545,609) | (4,361,476) |
| Inventories | 2,169,649 | (2,574,313) |
| Other receivables | 2,074,226 | (521,897) |
| Due from employees | - | (156,831) |
| Due to employees | 92,941 | - |
| Prepayments and prepaid expenses | 282,850 | 919,267 |
| Increase (Decrease) In: | | |
| Accounts payable | (39,730) | 3,876,269 |
| Other payables and accrued liabilities | 90,405 | (1,044,175) |
| Tax payable | (2,953) | - |
| Customer deposits | 646,235 | 301,943 |
| Net cash provided by (used in) operating activities | 7,238,116 | (1,590,589) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of plant and equipment | (2,866,548) | (861,407) |
| Purchases of construction in progress | (1,334,437) | (1,145,390) |
| Deposit for acquisition | (12,270,859) | - |
| Purchase of a subsidiary, net of cash acquired | - | (69,391) |
| Issuance of notes receivable | (5,726,898) | (430,811) |
| Due from related parties | - | 816,823 |
| Repayment of notes receivable | 4,934,046 | 351,457 |
| Compensation received for land use right | - | 165,757 |
| Net cash used in investing activities | (17,264,696) | (1,172,962) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Restricted cash | (3,212,577) | 5,819,379 |
| Proceeds from short term bank loans | 29,005,594 | 12,054,339 |
| Repayment of short term bank loans | (17,716,459) | (9,108,549) |
| Proceeds from notes payable | 12,324,047 | 10,677,113 |

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| | | |
|---|--------------|--------------|
| Repayment of notes payable | (10,779,564) | (16,884,382) |
| Repayment of advances to related parties | 31,901 | - |
| Net cash provided by financing activities | 9,652,942 | 2,557,900 |

See notes to consolidated financial statements

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2007 | 2006 |
|--|---------------------|---------------------|
| DECREASE IN CASH AND CASH EQUIVALENTS | (373,638) | (205,651) |
| Effect of exchange rate changes on cash | 662,403 | 362,679 |
| Cash and cash equivalents at beginning of year | 1,034,017 | 876,989 |
| <u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u> | \$ 1,322,782 | \$ 1,034,017 |

SUPPLEMENTARY CASH FLOW INFORMATION

| | | |
|-------------------|--------------|------------|
| Income taxes paid | \$ - | \$ - |
| Interest paid | \$ 1,007,597 | \$ 695,850 |

SUPPLEMENTAL NON-CASH DISCLOSURES:

On September 25, 2006, the Company acquired a 100% interest in Zhejiang Yongkang Import & Export Co., Ltd. (Dingji) for \$632,215 in cash and Dingji became a 100% owned subsidiary of the Company. The following represents the assets purchased and liabilities assumed at the acquisition date:

| | |
|---|---------------------|
| Cash and cash equivalents | \$ 562,824 |
| Restricted cash | 13,080,930 |
| Accountants receivable | 2,595,165 |
| Plant and equipment, net | 312,311 |
| Other receivables and prepayments | 1,756,798 |
| Other assets | 19,910 |
| Total assets purchased | 18,327,938 |
| Accounts payable | (1,624,432) |
| Other payable and accrued liabilities | (1,095,986) |
| Short-term bank loans | (1,719,918) |
| Notes payable | (13,086,854) |
| Deferred taxes | (3,236) |
| Other liabilities | (165,297) |
| Total liabilities assumed | (17,695,723) |
| Total net assets | \$ 632,215 |
| Share percentage | 100% |
| Net assets acquired and consideration paid | \$ 632,215 |
| Cash acquired | \$ 562,824 |
| Net cash consideration paid | \$ 69,391 |

See notes to consolidated financial statements

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 -ORGANIZATION AND PRINCIPAL ACTIVITIES

Kandi Technologies, Corp. (formerly Stone Mountain Resources, Inc.) (the “Company”) was incorporated under the laws of the State of Delaware on March 31, 2004. On June 29, 2007, the Company changed its name to Kandi Technologies, Corp.

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

The exchange transaction was accounted for as a reverse acquisition in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 141. “ Business Combinations”. Accordingly, the consolidated statements of income include the results of operations of Kandi Technologies, Inc. from the acquisition date through December 31, 2007 and 2006.

The primary operations of the Company is design, developing, manufacturing, and commercializing all-terrain vehicles, go-karts, and specialized automobile related products for the People’s Republic of China (“PRC”) and global export markets. Sales are made to dealers in China, United States, Europe and Australia.

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Kandi Technologies Corp. (formerly Stone Mountain Resource, Inc.), and the following subsidiaries:

- (i) Continental Development Ltd., (“Continental”) (100% subsidiary of the Company)
- (ii) Zhejiang Kandi Vehicles Co. Ltd., (“Kandi”) (100% subsidiary of Continental)
- (iii) Zhejiang Yongkong Import and Export Co. Ltd., (“Dingji”) (100% subsidiary of Kandi)

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

(b) Concentration

The Company's major customers for the years ended December 31, 2007 and 2006, respectively who accounted for the following percentage of total sales and accounts receivable are as follows:

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KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| Major Customers | Sales | | Accounts Receivable | |
|-----------------|-------|------|---------------------|-------------------|
| | 2007 | 2006 | December 31, 2007 | December 31, 2006 |
| Company A | 18% | - | 40% | - |
| Company B | 15% | 2% | 19% | 2% |
| Company C | 14% | 14% | 11% | 27% |
| Company D | 8% | 11% | 8% | 26% |
| Company E | 5% | 7% | 7% | 13% |

The Company's major suppliers for the years ended December 31, 2007 and 2006, respectively who accounted for the following percentage of total purchases and accounts payable are as follows:

| Major Suppliers | Purchases | | Accounts Payable | |
|-----------------|-----------|------|-------------------|-------------------|
| | 2007 | 2006 | December 31, 2007 | December 31, 2006 |
| Company F | 2% | 48% | 7% | 37% |
| Company G | 2% | 4% | 6% | 3% |
| Company H | 2% | 13% | 5% | 9% |
| Company I | 4% | 7% | 5% | 5% |
| Company J | 1% | - | 4% | - |

(c) Economic and Political Risks

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

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

(d) Use of Estimates

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

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KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, due from related parties, prepayments and prepaid expenses, other receivables, due from employees, accounts payable, due to employees, other payables and accrued liabilities, notes payable, short-term bank loans, and customer deposits. Management has estimated that the carrying amount approximates fair value due to their short-term nature.

(f) Cash and Cash Equivalents

For financial reporting purposes, the Company considers all highly liquid investments purchased with original maturity of three months or less to be cash equivalents.

Restricted cash at December 31, 2007 and 2006 represents time deposits on account to secure a short-term loan and notes payable. Also see Notes 8 and 9.

(g) 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 is comprised of direct materials, direct labor and an appropriate proportion of overhead.

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

(h) Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. At December 31, 2007 and 2006, the Company has an allowance for doubtful accounts of \$4,819 and \$0, respectively.

(i) Prepayments

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

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Plant and Equipment

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

| | |
|------------------|---------|
| | 30 |
| Buildings | years |
| | 10 |
| Machinery | years |
| Motor vehicles | 5 years |
| Office equipment | 5 years |
| Patterns | 5 years |

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income. The cost of maintenance and repairs is charged to expense as incurred, whereas significant renewals and betterments are capitalized. Also see note 7.

(k) Construction in Progress

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

(l) Land Use Rights

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

(m) Impairment of Long-Term Assets

Long-term assets of the Company are reviewed annually as to whether their carrying value has become impaired, pursuant to the guidelines established in SFAS No. 144 . The Company considers assets to be impaired if the carrying value exceeds the future projected cash flows from the related operations. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. There were no impairments in 2007 and 2006.

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Revenue Recognition

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

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

The majority of the Company's revenue results from sales contracts with distributors and revenue are recorded upon the shipment of goods. Management conducts credit background checks for new customers as a means to reduce the subjectivity of assuring collectibility.

(o) Government Grants

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

During 2007 and 2006, \$15,430 and \$97,806 was received from the PRC Government as a reward for the Company's contribution to the local economy.

(p) 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 \$112,489 and \$103,785 for the years ended December 31, 2007 and 2006, respectively.

(q) Retirement Benefits

Retirement benefits in the form of contributions under defined contribution retirement plans to the relevant authorities are charged as expenses as incurred. The retirement benefits expense for 2007 and 2006 are \$79,628 and \$71,441 respectively and are included in general and administrative expenses.

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Taxes

Deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income in the period that includes the enactment date. 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 deductibility is uncertain.

(s) 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 year.

| | 2007 | 2006 |
|--|--------|--------|
| Year end RMB: US\$ exchange rate | 7.3141 | 7.8087 |
| Average yearly RMB: US\$ exchange rate | 7.5614 | 7.9395 |

(t) 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 gain, net of tax.

(u) Segments

The Company operates in one business segment, developing, manufacturing, and commercializing all- terrain vehicles, go-karts, and special automobiles related products. Also see note 15.

(v) Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There were no potentially dilutive securities for 2007 and 2006.

KANDI TECHNOLOGIES, CORP.
(FORMERLY STONE MOUNTAIN RESOURCES, INC.)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007 and to interim periods within those fiscal years. The Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 157 will have on its consolidated results of operations, financial position, or cash flows.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115 ("FAS 159"). FAS 159, which became effective for the Company on January 1, 2008. This standard permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. Such accounting is optional and is generally to be applied instrument by instrument. The Company does not anticipate that election, if any, of this fair-value option will have a material effect on the consolidated results or operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations, and SFAS No.160, Non-controlling Interests in Consolidated Financial Statements. SFAS No. 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquire at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No.160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statement. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No.141 (R) and SFAS No.160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We have not yet determined the effect on our consolidated financial statements, if any, upon adoption of SFAS No.141 (R) or SFAS No. 160. We are aware that our accounting for minority interest will change and we are considering those effects now but believe the effects will only be a reclassification of minority interest from mezzanine equity to our stockholder's equity section in the balance sheet, in any case we do not believe the implementation of SFAS 160 will be material to our financial position, SFAS 141(R) will significantly affect the accounting for future business combinations and we will determine the accounting as new combinations are determined.

The implementation of the above pronouncements is not expected to have a material effect on the Company's consolidated financial statements or disclosures.

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NOTE 3 -INVENTORIES

Inventories are summarized as follows:

| | December 31, 2007 | December 31, 2006 |
|-------------------|------------------------------|------------------------------|
| Raw materials | \$ 1,534,448 | \$ 2,186,339 |
| Work-in-progress | 1,402,073 | 2,576,071 |
| Finished goods | 357,008 | 700,769 |
| Total inventories | \$ 3,293,529 | \$ 5,463,179 |

NOTE 4 -NOTES RECEIVABLE

Notes receivable consist of the following:

| | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| Notes receivable from unrelated companies: | | |
| Due June 27, 2008 | \$ 47,853 | \$ - |
| Due Dec 25, 2008 | 13,672 | - |
| Due March 25, 2008 (subsequently settled on its due date) | 957,056 | - |
| Due Jan 4, 2008 (subsequently settled on its due date) | 205,083 | - |
| Due March 19, 2007 (subsequently settled on its due date) | - | 97,327 |
| Due May 30, 2007 (subsequently settled on its due date) | - | 333,484 |
| Total | \$ 1,223,664 | \$ 430,811 |

Notes receivable from unrelated companies are interest-free and unsecured.

NOTE 5 -DUE TO/FROM RELATED PARTIES

(I) Due From Related Parties

| | 2007 | 2006 |
|--------------------------------|-------------|-------------|
| Hu Wangyuan (a) | \$ - | \$ 21,015 |
| Hu Xiaoming (b) | - | 10,886 |
| Total due from related parties | \$ - | \$ 31,901 |

(II) Due To Employees

| | 2007 | | 2006 |
|------------------------------|-------------|----|-------------|
| Current | \$ 310 | \$ | - |
| Total due from employees (c) | \$ 310 | \$ | - |

(II) Due From Employees

| | 2007 | | 2006 |
|------------------------------|-------------|----|-------------|
| Current | \$ 91,590 | \$ | 184,221 |
| Total due from employees (c) | \$ 91,590 | \$ | 184,221 |

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NOTE 5 -DUE TO/FROM RELATED PARTIES (CONTINUED)

- (a) Hu Wangyuan is the chairman of Dingji, a subsidiary of the Company. The balance as of December 31, 2006 represented advances, which were unsecured, interest-free and collected in 2007.
- (b) Hu Xiaoming is the chairman of the Company. The balance as of December 31, 2006 represented a traveling advance, which was unsecured, interest-free and collected in 2007.
- (c) Due to employees are interest-free, unsecured and have no fixed repayment term.
- (d) Due from employees are interest-free, unsecured and have no fixed repayment term. The Company provides these advances for business-related purposes only, including for the purchases of raw materials and business-related travel in the ordinary course of business.

NOTE 6 -LAND USE RIGHTS

Land use rights consist of the following:

| | December 31, 2007 | December 31, 2006 |
|--------------------------------|------------------------------|------------------------------|
| Cost of land use rights | \$ 460,943 | \$ 460,943 |
| Less: Accumulated amortization | (75,404) | (65,017) |
| Land use rights, net | \$ 385,539 | \$ 395,926 |

During 2006, \$165,757 was received from the finance bureau of Jinhua City, Zhejiang Province, PRC, as compensation due to the delay in completion of the development of the land by the government. The amount was netted against the original cost of the land use rights.

Amortization expense for the years ended December 31, 2007 and 2006 was \$10,386 and \$9,652, respectively.

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

| | |
|------------|------------|
| 2008 | \$ 10,386 |
| 2009 | 10,386 |
| 2010 | 10,386 |
| 2011 | 10,386 |
| 2012 | 10,386 |
| Thereafter | 333,609 |
| Total | \$ 385,539 |

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NOTE 7 – PLANT AND EQUIPMENT

Plant and equipment consist of the following:

| | December 31, 2007 | December 31, 2006 |
|---------------------------------|----------------------|----------------------|
| At cost: | | |
| Buildings | \$ 3,911,944 | \$ 3,371,280 |
| Machinery and equipment | 8,572,451 | 7,955,806 |
| Office equipment | 103,091 | 81,376 |
| Transportation | 900,644 | 679,554 |
| Patterns | 1,742,124 | - |
| | 15,230,254 | 12,088,016 |
| Less : Accumulated depreciation | | |
| Buildings | (428,834) | (289,224) |
| Machinery and equipment | (3,520,084) | (2,498,695) |
| Office equipment | (66,358) | (44,115) |
| Transportation | (190,317) | (31,047) |
| Patterns | (90,959) | - |
| | (4,296,552) | (2,863,081) |
| Plant and equipment, net | \$ 10,933,702 | \$ 9,224,935 |

As of December 31, 2007, the net book value of plant and equipment pledged as collateral for bank loans was \$1,652,616. Also see Notes 8 and 10

Depreciation expense for the years ended December 31, 2007 and 2006 was \$1,442,867 and \$934,175, respectively.

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NOTE 8 -SHORT TERM BANK LOANS

Short-term bank loans consist of the following:

| | December 31, 2007 | December 31, 2006 |
|---|----------------------|----------------------|
| Loans from ICBC-Exploration Zone Branch | | |
| Monthly interest only payments at 7.29% per annum, due November 24, 2008, secured by certain assets owned by the Company. | \$ 546,889 | \$ - |
| Monthly interest only payments at 6.57% per annum, due April 10, 2008, secured by certain assets owned by the Company. | 683,611 | - |
| Monthly interest only payments at 6.57% per annum, due June 5, 2008, secured by certain assets owned by the Company. | 683,611 | - |
| Monthly interest only payments at 7.29% per annum, due September 5, 2008, secured by certain assets owned by the Company. | 410,167 | - |
| Monthly interest only payments at 7.29% per annum, due September 5, 2008, secured by certain assets owned by the Company. | 369,150 | - |
| Monthly interest only payments at 7.29% per annum, due October 16, 2008, secured by certain assets owned by the Company. | 929,711 | - |
| Monthly interest only payments at 7.29% per annum, due October 23, 2008, secured by certain assets owned by the Company. | 478,528 | - |
| Monthly interest only payments at 5.85% per annum, due June 5, 2007, secured by certain assets owned by the Company. (subsequently repaid on its due date) | | 1,280,623 |
| Monthly interest only payments at 5.85% per annum, due July 24, 2007, secured by certain assets owned by the Company. (subsequently repaid on its due date) | - | 384,187 |
| Monthly interest only payments at 6.12% per annum, due September 7, 2007, secured by certain assets owned by the Company. (subsequently repaid on its due date) | - | 345,768 |
| Monthly interest only payments at 6.12% per annum, due October 17, 2007, secured by certain assets owned by the Company. (subsequently repaid on its due date) | - | 870,824 |

| | | |
|---|---|---------|
| Monthly interest only payments at 6.12% per annum, due November 1, 2007, secured by certain assets owned by the Company. (subsequently repaid on its due date) | - | 448,218 |
| Monthly interest only payments at 6.12% per annum, due November 27, 2007, secured by certain assets owned by the Company. (subsequently repaid on its due date) | - | 512,249 |

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NOTE 8 – SHORT TERM BANK LOANS (CONTINUED)

| | December 31, 2007 | December 31, 2006 |
|---|----------------------|----------------------|
| Loans from Commercial Bank-Jiangnan Branch | | |
| Monthly interest only payments at 7.58 % per annum, due January 10, 2008, secured by certain assets owned by the Company (subsequently repaid on its due date) | 2,734,444 | - |
| Monthly interest only payments at 7.67% per annum, due May 10, 2008, secured by certain assets owned by the Company. | 1,367,222 | - |
| Monthly interest only payments at 7.254 % per annum, due January 15, 2007, guaranteed by Jindezhen De'er Investment Co.Ltd and Yongkang Tangxin Metal Foundry Company (subsequently repaid on its due date) | - | 2,561,246 |
| Monthly interest only payments at 7.605% per annum, due May 11, 2007 secured by certain assets owned by the Company (subsequently repaid on its due date) | - | 1,280,622 |
| Loans from ICBC-Jinhua Branch | | |
| Monthly interest only payments at 6.88% per annum, due January 18, 2008, secured by certain assets owned by the Company. (subsequently repaid on its due date) | 189,753 | - |
| Monthly interest only payments at 6.58% per annum, due February 1, 2008, secured by certain assets owned by the Company. (subsequently repaid on its due date) | 948,766 | - |
| Monthly interest only payments at 6.88% per annum, due March 3, 2008, secured by certain assets owned by the Company. (subsequently repaid on its due date) | 858,883 | - |
| Monthly interest only payments at 7.88% per annum, due March 21, 2008, secured by certain assets owned by the Company. (subsequently repaid on its due date) | 1,098,571 | - |

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NOTE 8 -SHORT TERM BANK LOANS (CONTINUED)

| | December 31, 2007 | December 31, 2006 |
|--|----------------------|----------------------|
| Loans from Huaxia Bank | | |
| Monthly interest only payments at 8.22% per annum, due December 24, 2008. Guaranteed by Yongkang Tangxian Colour Metal Die-casting Company. | 2,734,444 | - |
| Monthly interest only payments at 5.83% per annum, due May 19, 2008. And secured by restricted cash of the Company. | 1,503,945 | - |
| Loans from China Guangda Bank | | |
| Monthly interest only payments at 7.18% per annum, due August 9, 2008. And secured by certain assets owned by the Company. Guaranteed by Nanlong Group Co.,Ltd & Zhejiang Mengdeli Electric Company. | 4,101,668 | - |
| Loans from Shanghai Pudong Development Bank | | |
| Monthly interest only payments at 6.33 % per annum, due February 14, 2008, secured by certain assets owned by the Company. (subsequently repaid on its due date) | 2,734,444 | - |
| Loans from Agricultural bank, Yongkang branch secured by account receivable of \$5,096,049 | | |
| Monthly interest only payments at 6.39% per annum, due February 2, 2007 (subsequently repaid on its due date) | - | 330,000 |
| Monthly interest only payments at 6.36063% per annum, due March 12, 2007 (subsequently repaid on its due date) | - | 700,000 |
| Monthly interest only payments at 6.36% per annum, due January 13, 2007 (subsequently repaid on its due date) | - | 450,000 |
| Total | \$ 22,373,807 | \$ 9,163,737 |

Interest expense for short-term loans during 2007 and 2006 were \$1,103,489 and \$459,948, respectively.

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NOTE 9 -NOTES PAYABLE

Notes payable consist of the following:

| | December 31, 2007 | December 31, 2006 |
|--|----------------------|----------------------|
| Notes payable to unrelated companies: | | |
| Due November 11, 2007 (subsequently settled on its due date) | \$ - | \$ 102,450 |
| Due May 30, 2007 (subsequently settled on its due date) | - | 14,608 |
| Due September 18, 2008 | 683,611 | - |
| Due April 17, 2008 | 683,611 | - |
| Due November 8, 2008 | 109,379 | - |
| Due January 15, 2008 (subsequently settled on its due date) | 683,611 | - |
| Due December 15, 2008 | 730,002 | - |
| Subtotal | \$ 2,890,214 | \$ 117,058 |
| Notes payable to related companies: | | |
| Bank acceptance notes | | |
| Due October 30, 2007 (subsequently settled on its due date) | \$ - | \$ 1,570,083 |
| Due January 4, 2007 (subsequently settled on its due date) | - | 960,467 |
| Due February 12, 2007 (subsequently settled on its due date) | - | 1,280,623 |
| Due February 10, 2007 (subsequently settled on its due date) | - | 1,280,623 |
| Due January 26, 2007 (subsequently settled on its due date) | - | 640,311 |
| Due January 5, 2007 (subsequently settled on its due date) | - | 960,467 |
| Due March 11, 2007 (subsequently settled on its due date) | - | 1,152,560 |
| Due March 25, 2007 (subsequently settled on its due date) | - | 1,024,498 |
| Due March 28, 2007 (subsequently settled on its due date) | - | 1,280,623 |
| Due January 3, 2007 (subsequently settled on its due date) | - | 512,250 |
| Due February 6, 2008 (subsequently settled on its due date) | 1,093,778 | - |
| Due February 6, 2008 (subsequently settled on its due date) | 683,611 | - |
| Due January 30, 2008 (subsequently settled on its due date) | 546,888 | - |
| Due January 26, 2008 (subsequently settled on its due date) | 820,333 | - |
| Due January 26, 2008 (subsequently settled on its due date) | 820,333 | - |
| Due March 20, 2008 (subsequently settled on its due date) | 957,057 | - |
| Due April 23, 2008 | 1,093,778 | - |
| Due June 27, 2008 | 683,611 | - |
| Due February 20, 2008 (subsequently settled on its due date) | 1,367,222 | - |
| Due February 21, 2008 (subsequently settled on its due date) | 1,367,222 | - |
| Subtotal | 9,433,833 | 10,662,505 |
| Total | \$ 12,324,047 | \$ 10,779,563 |

All the bank acceptance notes are subject to bank charges of 0.005% of the principal as commission on each loan transaction. Bank charges for notes payable were \$11,074 and \$9,048 in 2007 and 2006, respectively.

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NOTE 9 - NOTES PAYABLE (CONTINUED)

Restricted cash of \$10,801,055 is held as collateral for the following notes payable at December 31, 2007:

| | |
|--|----------------------|
| Due January 26, 2008 (subsequently settled on its due date) | \$ 1,640,667 |
| Due January 30, 2008 (subsequently settled on its due date) | 546,889 |
| Due February 6, 2008 (subsequently settled on its due date) | 1,777,389 |
| Due February 20, 2008 (subsequently settled on its due date) | 1,367,222 |
| Due February 20, 2008 (subsequently settled on its due date) | 1,367,222 |
| Due March 20, 2008 (subsequently settled on its due date) | 957,055 |
| Due April 17, 2008 | 683,611 |
| Due April 23, 2008 | 1,093,778 |
| Due June 27, 2008 | 683,611 |
| Due September 18, 2008 | 683,611 |
| Total | \$ 10,801,055 |

NOTE 10 - LONG TERM DEBT

Long-term debt consists of the following:

| | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Loans from Huaxia bank Hangzhou Jianguo branch, due November 22, 2007, quarterly interest only payments at 6.336% per annum, secured by the assets owned by the Company (subsequently settled on its due date) | \$ - | \$ 1,920,934 |
| Total long-term bank loan | - | 1,920,934 |
| Less: current portion | - | (1,920,934) |
| Total long-term portion | \$ - | \$ - |

Interest expense for long-term debt in 2007 and 2006 was \$0 and \$123,711, respectively .

NOTE 11 -INCOME TAXES

(a) Corporation Income Tax (“CIT”)

In accordance with the relevant tax laws and regulations of PRC, the applicable corporate income tax rate of the Company is 33%. However, according to certain rules in the tax laws, from the time that the Company has its first profitable tax year, a foreign-invested company is exempt from corporate income tax for the following two years of operations and is then entitled to a 50% tax reduction for the succeeding three years. The Company’s first profitable year for income tax purposes as a foreign-invested company was 2007. Dingji is a subsidiary of the Company and its applicable corporate income tax rate is 33%.

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NOTE 11 – INCOME TAXES (CONTINUED)

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”), an interpretation of FASB statement No. 109, Accounting for Income Taxes. The interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements.

Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2007, the Company does not have a liability for unrecognized tax benefits. The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to U.S. federal or state income tax examinations by tax authorities for years after 2005. During the periods open to examination, the Company has net operating loss and tax credit carry forwards for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs and tax credit carry forwards may be utilized in future periods, they remain subject to examination. The Company also files certain tax returns in China. As of December 31, 2007 the Company was not aware of any pending income tax examinations by China tax authorities. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2007, the Company has no accrued interest or penalties related to uncertain tax positions.

On March 16, 2007, the National People’s Congress of the PRC determined to adopt a new corporate income tax law in its fifth plenary session. The new corporate income tax law unifies the application scope, tax rate, tax deduction and preferential policy for both domestic and foreign-invested enterprises. The new corporate income tax law takes effect on January 1, 2008. However, the foreign-invested company which registered before March 16, 2007 still can be applied with the ex-corporate income tax law. Thus, Kandi is exempt from corporate income tax for the fiscal year 2007 and 2008 then is entitled to a 50% tax reduction for 2009, 2010 and 2011. Under the corporate income tax law, the Company had deferred tax in the year ended of December 31, 2007 and 2006 as follows:

| | 2007 | 2006 |
|------------------------------|--------------|----------|
| Current: | | |
| Provision for CIT | \$ 12,569 | \$ 2,911 |
| | 12,569 | 2,911 |
| Deferred: | | |
| Provision for CIT | (385,074) | (2,842) |
| | (385,074) | (2,842) |
| Income tax (benefit) expense | \$ (372,505) | \$ 69 |

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NOTE 11 -INCOME TAXES (CONTINUED)

The Company's income tax (benefit)/expense differs from the "expected" tax (benefit)/expense for the years ended December 31, 2007 and 2006 (computed by applying the CIT rate of 33% percent to income before income taxes) as follows:

| | 2007 | 2006 |
|------------------------------|--------------|-------------|
| Computed "expected" expense | \$ 1,536,675 | \$ 356,144 |
| Permanent difference | (401,841) | (5,198) |
| Tax rate adjustment | (53) | - |
| Tax exemption | (1,517,420) | (350,877) |
| Valuation allowance | 10,134 | - |
| Income tax (benefit) expense | \$ (372,505) | \$ 69 |

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities as of December 31, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---------------------------------------|-------------|-------------|
| Deferred tax assets: | | |
| Current portion: | | |
| Expense | \$ 5,702 | \$ 99 |
| Valuation allowance | (5,702) | - |
| Subtotal | - | 99 |
| Non-current portion: | | |
| Depreciation | 698,944 | 292,290 |
| Valuation allowance | (293,938) | (289,506) |
| Subtotal | 405,006 | 2,784 |
| Total deferred tax assets | 405,006 | 2,883 |
| Deferred tax liabilities: | | |
| Current portion: | | |
| Expense | (17,676) | - |
| Subtotal | (17,676) | - |
| Non-current portion: | | |
| Other | (299,161) | (81,195) |
| Subtotal | (299,161) | (81,195) |
| Total deferred tax liabilities | (316,837) | (81,195) |
| Net deferred tax assets (liabilities) | \$ 88,169 | \$ (78,312) |

(b) Tax Holiday Effect

For 2007 and 2006 the PRC corporate income tax rate was 33%. Certain subsidiaries of the Company are entitled to tax exemptions (tax holidays) for 2007 and 2006.

Income before income tax expense of \$4,656,946 and \$1,079,224 for 2007 and 2006, respectively, was attributed to subsidiaries with operations in China. Income tax (benefit) expense related to China income for 2007 and 2006 is \$(372,505) and \$69, respectively.

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NOTE 11 -INCOME TAXES (CONTINUED)

The combined effects of the income tax expense exemptions and reductions available to the Company for the years ended December 31, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|-----------------------------------|--------------|-------------|
| Tax holiday effect | \$ 1,517,420 | \$ 350,877 |
| Basic net income per share effect | \$ 0.09 | \$ 0.03 |

(c) Value Added Tax ("VAT")

Enterprises or individuals, who sell commodities, engage in repair and maintenance or import or export goods in the PRC are subject to a value added tax in accordance with Chinese Laws. The VAT standard rate is 17% of the gross sale price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company's finished products can be used to offset the VAT due on the sales of the finished products.

On January 1, 2002, the export policy of VAT "Exemption, Credit and Refund" began to apply to all exports by manufacture-based enterprises. In accordance with this policy, exported goods are exempted from output VAT and the input VAT charged for purchases of the raw materials, components and power consumed for the production of the exported goods may be refunded. Beginning July 1, 2007, the refund rates of vehicle related products applicable to Kandi and Dingji were changed from 17% to 9%.

The refundable VAT of \$542,874 and \$2,171,195 at December 31, 2007 and 2006, respectively, are included in other receivables in the accompanying consolidated balance sheets.

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NOTE 12 -COMMITMENTS

The Company occupies office space leased from a third party. For the years ended December 31, 2007 and 2006 the Company recognized rental expense of \$18,235 and \$0, respectively.

As of December 31, 2007, the Company has outstanding commitments with respect to non-cancelable operating leases for real estate, which are due in the as following amounts:

| Years Ending December 31 | Amount |
|--------------------------|-----------|
| 2008 | \$ 18,690 |
| 2009 | 15,575 |
| Total | \$ 34,265 |

NOTE 13 -DEPOSIT FOR ACQUISITION

In November 2007, the Company signed a letter of intent with the shareholders of Kandi Special Vehicles Co., Ltd, by which the Company would acquire 100% of Kandi Special Vehicles Co., Ltd. The Company paid a refundable deposit of \$12,270,859 as of December 31, 2007. The total consideration for the acquisition is \$12,314,988 and the acquisition is expected to be completed in April of 2008.

NOTE 14 -FORFEITURE OF CUSTOMER DEPOSITS

The forfeitures of customer deposits resulted from the customers' breach of mutual contracts (the customers had declared bankruptcy). During the year ended December 31, 2007 and 2006, \$505,207 and \$0, were forfeited and recorded in the accompanying consolidated statements of income and comprehensive income as other income.

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NOTE 15 -GEOGRAPHICAL SALES

The following are the geographical sales of the Company:

| Area | 2007 | | 2006 | |
|----------------|---------------|------------|---------------|------------|
| | Amounts | Percentage | Amounts | Percentage |
| United States | \$ 17,499,043 | 50% | \$ 2,238,143 | 15% |
| North American | 6,390,220 | 18% | 1,126,484 | 8% |
| China | 6,264,492 | 18% | 10,087,327 | 70% |
| Europe | 2,783,342 | 8% | 609,767 | 4% |
| Others | 1,765,071 | 6% | 419,115 | 3% |
| Total | \$ 34,702,168 | 100% | \$ 14,480,836 | 100% |

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Item 9A(T). Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Company in this Form 10-K, and in other reports required to be filed under the Securities Exchange Act of 1934 (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms for such filings. Management of the Company, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15a(e) and 15d-15(e) under the Exchange Act) as of December 31, 2007. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer, along with other key management of the Company, have determined that the disclosure controls and procedures were not effective as of such date. The basis for this determination was that, as discussed below, management has identified material weaknesses in our internal control over financial reporting, which management views as an integral part of our disclosure controls and procedures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was not effective as of December 31, 2007.

In connection with our management's assessment of our internal control over financial reporting, the following material weaknesses have been identified as of December 31, 2007:

1. lack of proper control regarding delegation of authority;
2. weakness in segregation of duty in the operating process;
3. lack of adequate written documentation to evidence approval control procedures;
4. lack of computer data disaster recovery control procedures;
5. insufficient internal audit policies and procedures; and
6. ineffective period-end financial reporting procedures.

Remediation of Material Weaknesses

The Company is in the process of developing and implementing remediation plans to address our material weaknesses. As of the date of this annual report on Form 10-K, management has taken the following actions to improve internal controls over financial reporting:

1. established internal audit function and relevant policies and procedures to strengthen the fraud risk assessment and anti-fraud system;
2. recruited qualified consultant to assist in financial reporting procedures and establishment of more detailed policy and procedures on preparation of financial statements;
3. implemented effective policies and procedures in document control to evidence the control operating effectiveness; and
4. implemented effective policies and procedures in our information technology environment.

Our management anticipates remediating these deficiencies by year ending 2008. In addition, management has undertaken remedial steps to improve the internal and disclosure controls, including hiring additional staff and training our new and existing staff. Since the third quarter of 2007, management has hired a consulting firm experienced in handling compliance with the requirements of the Sarbanes Oxley Act of 2002.

The remediation efforts will be overseen and include the participation of our management, including our chief executive officer and our chief financial officer. We are currently still reviewing our efforts to improve our internal controls and may in the future identify additional deficiencies to our internal controls. Should we discover any additional deficiencies, we will take appropriate measures to correct or improve our internal controls.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Controls Over Financial Reporting

None.

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SIGNATURES

Pursuant to the requirements of Section 13 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, CORP.

October 3, 2008

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

In accordance with 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.

/s/ Hu Xiaoming President, Chief Executive Officer and October 3, 2008
Hu Xiaoming Chairman of the Board (Principal Executive Officer)

/s/ Zhu Xiaoying Chief Financial Officer and Director October 3, 2008
Zhu Xiaoying (Principal Financial Officer and Principal Accounting Officer)