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Kandi Technologies Group, Inc.
Form 10-Q
August 09, 2018

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

FORM 10-Q

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

For the quarterly period ended **June 30, 2018**

or

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

For the transition period from _____ to _____

Commission file number **001-33997**

KANDI TECHNOLOGIES GROUP, INC.
(Exact name of registrant as specified in charter)

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

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

(Address of principal executive offices)

(86 - 579) 82239856

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth 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)	Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of August 3, 2018, the registrant had 55,979,502 shares of common stock issued and 51,471,944 shares of common stock outstanding, par value \$0.001 per share.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2018 (Unaudited)	December 31, 2017
Current assets		
Cash and cash equivalents	\$ 1,612,459	\$ 4,891,808
Restricted cash	7,878,200	11,218,688
Accounts receivable(net of allowance for doubtful accounts of \$331,362 and \$133,930 as of June 30, 2018 and December 31, 2017, respectively)	34,071,931	34,397,858
Inventories (net of provision for slow moving inventory of \$938,624 and \$620,919 as of June 30, 2018 and December 31, 2017, respectively)	11,644,868	15,979,794
Notes receivable from JV Company and related party	-	1,137,289
Other receivables	2,342,060	2,650,668
Prepayments and prepaid expense	6,099,704	6,536,839
Due from employees	4,527	7,070
Advances to suppliers	15,211,522	14,908,385
Amount due from JV Company, net	64,775,429	146,422,440
Amount due from related party	-	162,048
TOTAL CURRENT ASSETS	143,640,700	238,312,887
 LONG-TERM ASSETS		
Property, Plant and equipment, net	12,806,094	12,000,971
Land use rights, net	12,377,307	12,666,047
Construction in progress	69,541,416	53,083,925
Deferred taxes assets	3,301,698	4,383,425
Long Term Investment	-	1,460,034
Investment in JV Company	154,866,326	70,681,013
Goodwill	24,156,275	322,591
Intangible assets	4,811,077	331,116
Advances to suppliers	-	21,592,918
Other long term assets	6,855,927	7,590,734
Amount due from JV Company, net	-	15,907,183
TOTAL Long-Term Assets	288,716,120	200,019,957

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TOTAL ASSETS	\$432,356,820	\$438,332,844
CURRENT LIABILITIES		
Accounts payables	\$92,759,784	\$111,595,540
Other payables and accrued expenses	5,323,548	6,556,209
Short-term loans	32,482,003	33,042,864
Customer deposits	274,205	205,544
Notes payable	18,848,520	28,075,945
Income tax payable	1,181,776	2,902,699
Due to employees	10,521	35,041
Deferred income	1,404,431	2,191,143
Total Current Liabilities	152,284,788	184,604,985
LONG-TERM LIABILITIES		
Long term bank loans	30,064,737	30,737,547
Contingent liability	5,345,985	-
Other long-term liability	549,568	-
Total Long-Term Liabilities	35,960,290	30,737,547
TOTAL LIABILITIES	188,245,078	215,342,532
STOCKHOLDER'S EQUITY		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 54,257,312 and 48,036,538 shares issued and 51,297,475 and 48,036,538 outstanding at June 30,2018 and December 31,2017, respectively	51,297	48,037
Additional paid-in capital	254,193,380	233,055,348
Retained earnings (the restricted portion is \$4,422,033 and \$4,422,033 at June 30,2018 and December 31,2017, respectively)	1,300,210	(3,802,310)
Accumulated other comprehensive loss	(11,433,145)	(6,310,763)
TOTAL STOCKHOLDERS' EQUITY	244,111,742	222,990,312
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$432,356,820	\$438,332,844

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
REVENUES FROM UNRELATED PARTY, NET	11,618,855	1,153,555	\$17,351,318	\$4,116,486
REVENUES FROM JV COMPANY AND RELATED PARTY, NET	4,740,751	26,171,724	7,344,195	27,483,366
REVENUES, NET	16,359,606	27,325,279	24,695,513	31,599,852
COST OF GOODS SOLD	(14,301,594)	(23,568,343)	(21,291,550)	(27,175,584)
GROSS PROFIT	2,058,012	3,756,936	3,403,963	4,424,268
OPERATING EXPENSES:				
Research and development	(642,889)	(5,142,041)	(1,400,187)	(25,911,773)
Selling and marketing	(228,173)	(402,253)	(976,398)	(760,562)
General and administrative	(3,861,263)	(1,558,652)	(3,463,092)	(9,877,946)
Total Operating Expenses	(4,732,325)	(7,102,946)	(5,839,677)	(36,550,281)
(LOSS) FROM OPERATIONS	(2,674,313)	(3,346,010)	(2,435,714)	(32,126,013)
OTHER INCOME(EXPENSE):				
Interest income	456,784	559,425	1,399,777	1,090,067
Interest expense	(471,616)	(548,810)	(1,022,033)	(1,163,263)
Change in fair value of contingent consideration	686,833	-	3,367,012	-
Government grants	15,558	262,137	110,813	5,329,611
Share of income (loss) after tax of JV	2,372,696	(8,738,254)	3,167,751	(13,899,967)
Other income , net	627,582	121,556	650,559	150,177
Total other income (expense), net	3,687,837	(8,343,946)	7,673,879	(8,493,375)
INCOME (LOSS) BEFORE INCOME TAXES	1,013,524	(11,689,956)	5,238,165	(40,619,388)
INCOME TAX BENEFIT (EXPENSE)	361,001	131,939	(135,645)	4,907,936
NET INCOME (LOSS)	1,374,525	(11,558,017)	5,102,520	(35,711,452)
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation	(12,587,622)	3,118,462	(5,122,382)	4,910,278

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COMPREHENSIVE (LOSS)	\$ (11,213,097)	\$ (8,439,555)	\$ (19,862)	\$ (30,801,174)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	51,140,542	47,974,974	50,893,356	47,854,351
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	51,140,542	47,974,974	50,893,356	47,854,351
NET INCOME (LOSS) PER SHARE, BASIC	\$0.03	\$ (0.24)	\$0.10	\$ (0.75)
NET INCOME (LOSS) PER SHARE, DILUTED	\$0.03	\$ (0.24)	\$0.10	\$ (0.75)

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended	
	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$5,102,520	\$(35,711,452)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,791,762	2,334,776
Assets impairments	341,261	38,548
Allowance for doubtful accounts	(7,257)	-
Deferred taxes	-	(5,415,959)
Share of income after tax of JV Company	(3,167,751)	13,899,967
Reserve for fixed assets	(54,799)	-
Change in fair value of contingent consideration	(3,367,012)	-
Stock compensation cost	222,259	4,493,187
Changes in operating assets and liabilities, net of effects of acquisition:		
(Increase) Decrease In:		
Accounts receivable	(36,123,904)	(2,826,433)
Deferred taxes assets	(53,330)	-
Notes receivable	502,623	-
Notes receivable from JV Company and related party	2,060,755	4,875,795
Inventories	5,020,163	(1,242,422)
Other receivables and other assets	927,544	(498,376)
Due from employee	(22,355)	(23,344)
Advances to supplier and prepayments and prepaid expenses	(2,626,098)	23,946,781
Advances to suppliers-long term	-	(4,099,879)
Amount due from JV Company	(39,263,079)	(21,853,571)
Amount due from JV Company-Long term	15,907,183	-
Due from related party	165,614	-
Increase (Decrease) In:		
Accounts payable	41,319,755	25,017,146
Other payables and accrued liabilities	25,636,794	127,252
Notes payable	(11,936,770)	(2,731,692)
Customer deposits	75,010	132,765
Income tax payable	(1,837,147)	(31,314)
Deferred income	(779,240)	(5,077,291)
Loss contingency-litigation	-	2,909,151
Net cash used in operating activities	\$(165,499)	\$(1,736,365)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property, plant and equipment, net	(122,407)	(128,509)
Purchases of land use rights and other intangible assets	(107,917)	-
Acquisition of Jinhua An Kao (net of cash received)	(3,694,275)	-
Purchases of construction in progress	(48,042)	(1,029,516)
Reimbursement of capitalize interests for construction in progress	1,860,287	-
Long Term Investment	1,492,162	-
Short term investment	-	4,509,183
Net cash (used in) provided by investing activities	\$(620,192)	\$3,351,158

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from short-term bank loans	14,764,553	13,963,923
Repayments of short-term bank loans	(14,764,553)	(17,018,531)
Repayments of long-term bank loans	(157,070)	-
Proceeds from notes payable	34,702,510	5,713,368
Repayment of notes payable	(40,349,566)	-
Net cash (used in) provided by financing activities	\$(5,804,126)	\$2,658,760

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	(6,589,817)	4,273,553
Effect of exchange rate changes on cash	(30,020)	648,835
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	16,110,496	25,193,298

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD

	9,490,659	30,115,686
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SUPPLEMENTARY CASH FLOW INFORMATION

Income taxes paid	1,815,156	1,001,501
Interest paid	848,232	742,958

SUPPLEMENTAL NON-CASH DISCLOSURES:

Advances to suppliers-long term transferred to construction in progress	22,068,080	8,712,000
Advances to suppliers transferred to construction in progress	6,090,219	-
Purchase of construction in progress in accounts payable	-	5,974,383
Settlement of due from JV Company and related parties with notes receivable	36,310,747	22,819,847
Settlement of accounts receivables with notes receivable from unrelated parties	39,932,517	1,076,386
Assignment of notes receivable from unrelated parties to supplier to settle accounts payable	12,570,974	1,076,386
Assignment of notes receivable from JV Company and related parties to supplier to settle accounts payable	35,176,703	18,348,424
Settlement of accounts payable with notes payables	19,480,843	18,839,444
Deferred tax changed to other comprehensive income	-	24,486
Acquisition of Jinhua An Kao by stock	20,718,859	-
Cancellation of notes payables	10,994,880	-
Amount due from JV Company converted to investment in JV Company	85,602,991	-
Adjustment of construction in progress with accounts payable	8,299,226	-
Adjustment of advance to supplier with accounts payable	3,703,808	-

See accompanying notes to condensed consolidated financial statements

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

The Company’s organizational chart as of August 3, 2018 is as follows:

Operating Subsidiaries:

Pursuant to the agreements executed in January 2011, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests (100% of profits and losses) of Jinhua Kandi New Energy Vehicles Co., Ltd. (“Kandi New Energy”). Kandi New Energy currently holds battery pack production licensing rights and supplies battery packs to the JV Company (as such term is defined below).

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

In March 2013, pursuant to a joint venture agreement (the “JV Agreement”) entered into by Kandi Vehicles and Shanghai Maple Guorun Automobile Co., Ltd. (“Shanghai Guorun”), a 99%-owned subsidiary of Geely Automobile Holdings Ltd. (“Geely”), the parties established Zhejiang Kandi Electric Vehicles Co., Ltd. (the “JV Company”) to develop, manufacture and sell EV products and related auto parts. Each of Kandi Vehicles and Shanghai Guorun has 50% ownership interest in the JV Company. In March 2014, the JV Company changed its name to Kandi Electric Vehicles Group Co., Ltd. At present, the JV Company is a holding company and all products are manufactured by its subsidiaries. In an effort to improve the JV Company’s development, Zhejiang Geely Holding Group, the parent company of Geely, became a JV Company shareholder on October 26, 2016, through its purchase of the 50% equity of the JV Company held by Shanghai Guorun at a premium price (a price exceeding the cash amount of the aggregate of the original investment and the shared profits over the years). On May 19, 2017, due to business development, Zhejiang Geely Holding Group, Ltd. (Geely Holding) transferred its equity in the JV Company to Geely Group (Ningbo) Ltd., a company wholly owned by Mr. Li Shufu, Chairman of the Board of Geely Holding. On May 23, 2018, in order to obtain the manufacturing license, according to the recent notice (FGBCY[2018] No.547) from National Development and Reform Commission in China, the JV Company increased its registered capital by RMB 1.09 billion (approximately \$165 million), of which Kandi Vehicle increased its capital contribution to the JV Company by converting its RMB 545 million (approximately \$83 million) loans lent to the JV Company to the JV Company’s registered capital. Geely Group, Ltd. (“Geely Group”) became a new shareholder of the JV Company by investing RMB 545 million (approximately \$83 million). After this restructure, Kandi Vehicles, Geely Group and Geely Group (Ningbo) Ltd. owns 50%, 26.08%, and 23.92% of equity of the JV Company, respectively.

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

In July 2013, Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the “Service Company”) was formed. The Service Company is engaged in various pure EV leasing businesses, generally referred to as the Micro Public Transportation (“MPT”) and other EV share programs. Kandi Vehicle had a 9.5% ownership interest in the Service Company. After exploration and practice in the last five years, the Company realized a large sum of capital still needs to be invested in order to increase the size of EV share programs. Considering Geely Group has the abilities to grow the Service Company’s business to be stronger and bigger and a successful growth of the Service Company will have positive impact on the development of the JV Company’s business, Kandi Vehicle transferred its 9.5% of ownership interest in the Service Company to Geely Group in June 2018.

In November 2013, Kandi Electric Vehicles Jinhua Co., Ltd. (“Kandi Jinhua”) was formed by the JV Company. The JV Company has a 100% ownership interest in Kandi Jinhua, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jinhua. In April 2017, Kandi Jinhua was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company.

In November 2013, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. (“JiHeKang”) was formed by the JV Company. JiHeKang is engaged in the car sales business. The JV Company has a 100% ownership interest in JiHeKang, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in JiHeKang. In April 2017, JiHeKang was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company.

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

In January 2014, Kandi Electric Vehicles Jiangsu Co., Ltd. (“Kandi Jiangsu”) was formed by the JV Company. The JV Company has a 100% ownership interest in Kandi Jiangsu, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jiangsu. Kandi Jiangsu is mainly engaged in EV research and development, manufacturing, and sales. As of the date of this report, Kandi Jiangsu directly owns 100% of JiHeKang, JiHeKang Service Company, Liuchuang and KandiJinhua.

In November 2015, Hangzhou Puma Investment Management Co., Ltd. (“Puma Investment”) was formed by the JV Company. Puma Investment provides investment and consulting services. The JV Company has a 50% ownership interest in Puma Investment (the other 50% is owned by Zuozhongyou Electric Vehicles Service (Hangzhou) Co., Ltd., a subsidiary of the Service Company), and the Company, indirectly through the JV Company, has a 25% economic interest in Puma Investment.

In November 2015, Hangzhou JiHeKang Electric Vehicle Service Co., Ltd. (the “JiHeKang Service Company”) was formed by the JV Company. The JiHeKang Service Company focuses on after-market services for EV products. In April 2017, JiHeKang Service Company was reorganized to be owned directly by Kandi Jiangsu, which is 100% directly owned by the JV Company. The JV Company has a 100% ownership interest in the JiHeKang Service Company, and the Company, indirectly through the JV Company, has a 50% economic interest in the JiHeKang Service Company.

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

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

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

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

In November 2016, Changxing Kandi Vehicle Maintenance Co., Ltd. (“Changxing Maintenance”) was formed by Kandi Changxing. Changxing Maintenance is engaged in the car repair and maintenance business. In December 2017, the Service Company entered into an agreement with the JV Company to acquire 100% of Changxing Maintenance for RMB 1,089,887 or approximately \$167,501. The transaction was completed in April 2018.

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

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

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

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

On December 18, 2017, Kandi Vehicles and the sole shareholder of Jinhua An Kao Power Technology Co., Ltd. (“Jinhua An Kao”) entered into a Share Transfer Agreement and a Supplementary Agreement, pursuant to which Kandi Vehicles acquired Jinhua An Kao. The two agreements were signed on December 12, 2017 and the closing took place on January 3, 2018. Kandi Vehicles acquired 100% of the equity interests of Jinhua An Kao for a purchase price of

approximately RMB 25.93 million (approximately \$3.9 million) in cash. In addition, pursuant to the Supplementary Agreement by and between the two parties, the Company issued a total of 2,959,837 shares of restrictive stock, or 6.2% of the Company's total outstanding shares of the common stock to the shareholder of Jinhua An Kao. An additional 2,959,837 shares are placed as make good shares for the undertaking of Jinhua An Kao to achieve no less than a total of RMB 120,000,000 (approximately \$18.1 million) net income over the course of the following three years. The Supplementary Agreement sets forth the terms and conditions of the issuance of these shares, including that the Company has the voting rights of the make good shares until conditions for vesting those shares are satisfied.

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

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

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

The Company’s primary business operations are designing, developing, manufacturing and commercializing EV products, EV parts and off-road vehicles. As part of its strategic objective of becoming a leading manufacturer of EV products (through the JV Company) and related services, the Company has increased its focus on pure EV-related products, and actively expanded China market and international market.

NOTE 2 - LIQUIDITY

The Company had a working capital deficit of \$8,644,088 as of June 30, 2018, a decrease of \$62,351,990 from a working capital surplus of \$53,707,902 as of December 31, 2017.

As of June 30, 2018, the Company had credit lines availab