

# YASHENG GROUP

## FORM 10-K (Annual Report)

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

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

Commission File Number 000-31899



**YaSheng Group**

(Name of small business issuer as specified in its charter)

**California**

(State or other jurisdiction of  
incorporation or organization)

**33-0788293**

(I.R.S. Employer  
Identification Number)

**805 Veterans Blvd., #228 Redwood City, CA**

(Address of principal executive offices)

**94063**

(Zip code)

**(650) 363-8345**

(Issuer's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K ( § 229.405) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(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 Exchange Act).  
Yes  No

The aggregate market value of voting stock held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant’s most recently completed fiscal year, June 30, 2013, was \$8,490,000. For purposes of this computation, it has been assumed that the shares beneficially held by directors and officers of registrant were “held by affiliates”; this assumption is not to be deemed to be an admission by such persons that they are affiliates of registrant.

The number of shares of registrant’s common stock outstanding as of December 31, 2013 was 155,097,355.

**Documents incorporated by reference:** None.

**Transitional Small Business Disclosure Format** (Check one): Yes  No

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*In this Annual Report on Form 10-K, references to “dollars” and “\$” are to the United States dollars and, unless the context otherwise requires, YaSheng Group and its consolidated subsidiaries are referred to in this report as the “HERB” “YaSheng,” the “Company,” “we,” “our” or “us.” In addition to historical information, this Annual Report on Form 10-K (“Annual Report”) for YaSheng contains “forward-looking” statements, including statements regarding the growth of product lines, optimism regarding the business, expanding sales and other statements. Words such as expects, anticipates, intends, plans, believes, sees, estimates and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Actual results could vary materially from the description contained herein based on (i) the uncertain global economic environment and the timing and strength of a recovery in the markets we serve, and the extent to which adverse economic conditions continue to affect our sales volume and results, including our ability to command premium prices for certain of our principal products, or increase competitive pressures within the industry, (ii) the impact of governmental initiatives in the People’s Republic of China to spur economic activity, including the effects of significant government monetary or other market interventions on inflation, and price control, (iii) our anticipated cash needs in light of our liquidity, (iv) the continued ability of our distributors and suppliers to have access to sufficient liquidity to fund their operations, (v) trends and other factors affecting our financial condition or results of operations from period to period, including changes in product mix or consumer demand for branded products such as ours, particularly as consumers remain price-conscious in the current economic environment; anticipated price and expense levels; the impact of crop disease, severe weather conditions or natural disasters, on crop quality and yields and on our ability to grow; and the availability of sufficient labor during peak growing and harvesting seasons, (vi) the impact of foreign currency fluctuations, (vii) our plans for expansion of our business and cost savings, (viii) our ability to successfully integrate existing operations and acquisitions into our operations, and (ix ) the cost and other implications of changes in regulations applicable to our business, including potential legislative or regulatory initiatives in the People’s Republic of China or elsewhere directed at mitigating the effects of climate change, and other risk factors listed in the section of this Annual Report titled “Risk Factors” and elsewhere in this Annual Report.*

*Each forward-looking statement should be read in context with, and with an understanding of, the various disclosures concerning our business made elsewhere in this Annual Report, as well as other public reports filed by us with the United States Securities and Exchange Commission. Readers should not place undue reliance on any forward-looking statement as a prediction of actual results of developments. All forward-looking statements in this Annual Report are based on information available to us on the date hereof, and we undertake no obligation to update or revise any forward-looking statement contained in this Annual Report*

## PART I

### ITEM 1 — BUSINESS

#### *Overview*

YaSheng Group, a California corporation, is a holding company that operates and primarily conducts its business operations in People's Republic of China ("PRC" or "China") through its eight subsidiaries and operating entities. As one of the largest agriculture companies in Northwest China, we are a leading producer of premium specialty agriculture based products, specializing in developing the agriculture industry by cultivating, processing, marketing and distributing a variety of food and agro-byproducts. We also operate a small concrete plant in Baiyin City, Gansu Province, China.

Our food and agro-byproducts are processed primarily from premium specialty agriculture products grown in Northwest China in six agricultural product categories: fresh fruits, vegetables, field crops, specialty crops, seeds and eggs. We have been producing our award winning premium specialty agriculture products for over 30 years. We harvest our crops through farms that we own and from collective farm operators. Our primary product offering includes over 30 major agriculture products under 6 product categories with the major products including: field crops: cotton, corns, barley, wheat, flax, alfalfa ; vegetables: onions, potatoes, beet, and peas; fruit: apples, pears, apricots; specialty crops: hops, wolfberries, cumin, hemp, liquorices; seeds: black melon seeds, sunflower seeds, corn seeds, flax seeds, hemp seeds; poultry: eggs. We also produce many additional fresh fruits and vegetables which supply the local and provincial markets. We generated approximately 22.7% of our revenues from field crop based products, 14.9% from vegetable based products, 30.1% from fruits, 21.1% from specialty crops, 11.2% from seeds, and 1.9% from poultry products and the residual from other production during the year ended December 31, 2013.

We sell our products through an extensive nationwide sales and distribution network covering 19 provinces and over 118 cities in China. As of December 31, 2013, we have approximately 232 distributors and 38 direct clients. Our products are also sold directly to food processors as well as processed within our company and then resold to supermarkets or other distributors, or further processed into retail food products. We also sell many of our fresh products within Gansu province as well as nationally to food processors and distributors, or directly to the supermarkets. Our customers are based primarily in China and include national and international leading companies. Our products are also sold as feed for livestock, ingredients for Chinese traditional medicines as well as other important ingredients in the food industry.

Quality and safety are of primary importance to us. We have established quality control and food safety management systems for all stages of our business, including raw material sourcing, producing, packaging, storage and transportation of our products. We currently operate from our Agriculture Bases and manufacturing facilities located in Gansu province stretching one end to the other, where an abundant supply of land, sunshine, water, natural environmental conditions, and transportation are available.

Our agriculture base is made up of both modern industrial farm and local farming operations with many types of processing lines. The majority of farms use high tech irrigation allowing for water efficiency, reducing the presence of insects, therefore minimizing the need for heavy pesticides.

Our net sales for the year ended December 31, 2013 was \$1,011 million. Our gross profit for the year ended December 31, 2013 was \$143 million. Earnings per share for the year end December 31, 2013 were \$0.88 per share.

Our principal executive office is located at 805 Veterans Blvd., #228, Redwood City, CA 94063. Our telephone number at our U.S. executive office is (650) 363-8345.

## ITEM 1 — BUSINESS - *continued*

### Corporate History

YaSheng Group was incorporated and established in 2004 by Gansu YaSheng Salt Industrial Group, Ltd (“Gansu YaSheng”). The Company was approved by the Chinese Ministry of Commerce as “China Oversea Investment Enterprise”. Gansu YaSheng is our largest shareholder and owns approximately 78% of our outstanding common stock.

In 2004, GanSu YaSheng established YaSheng Group to access the U.S. public markets and international markets, to implement its expansion plans, and acquired Nicholas Investment Company, Inc., a Nevada corporation.

In 2010, we established Yasheng American Trade Company as our subsidiary, with the intention to improve our efficiency and strengthen our internal controls. The new company will manage our products sales and investment.

In 2010, we established Yasheng Commodity Trading, LLC as our subsidiary, which will help to trade futures and agricultural commodities.

In 2010, YaSheng Group is listed on the OTCQB as a U.S. registrant and also being dually listed on the Deutsche Bourse Exchange, which will facilitate the Company's access to global capital markets.

**In late 2012 and 2013, we formed four new subsidiaries to further our plans for expansion. See corporate structure below for details.**

### Corporate Structure

We conduct our operations in China through our eight operating subsidiaries, and their numerous operating subsidiaries in China as described in further detail below.

**1. Gansu Tiaoshan Agricultural-Industrial-Commercial Group Co., Ltd.** Founded in 1997, Gansu Tiaoshan Agricultural-Industrial-Commercial Group Co., Ltd (“Gansu Tiaoshan Group”) is located in Jingtai County, Baiyin City, Gansu Province. It has over 210th mu (Chinese mu is equal to 1/15 of a hectare or 1/6 of an acre) arable land. That including □ The national A Grade Green Food fruit base 20,000 mu, the Green Food Vegetable production base of 40,000 mu (potato, onion), the Pollution-Free Agricultural demonstration base 100,000 mu, the agricultural seed commercialization and breeding demonstration base 20,000 mu, the special medicine and herbs planting base of 30,000 mu. Its operating subsidiaries as described below primarily grow, process and sell products such as cotton, corn, barley, wheat, potatoes, beet, apple, pear, apricot, medlar, flax seeds, black seeds, sunflower seeds, hemp seeds, corn seeds, eggs, agricultural and cement. The Tiaoshan Brand fruits have won numerous national and provincial awards as well as the Chinese Prestigious Product Award and its potato, apricot, crispy pear, and Fuji apple have been granted organic food by the China Organic Food Development Center. The Gansu Tiaoshan Group is certified as an A level national production base for organic food and fruits. The Gansu Tiaoshan Group is recognized by the Ministry of Agriculture as a demonstration farm (a model farm) and quality-trace experimental enterprises for environment-friendly agricultural products. Tiaoshan is the China green food Development Center for the national A-class green food fruit base; this is the only National Green Food production base in Gansu province.

The Gansu Tiaoshan Group consists of the following operating entities:

- **Gansu Baiyin Agriculture and Reclamation Company – Cement Factory.** The factory's (formerly the state-owned Tiaoshan Farm Cement Plant) main products include the "Tiger-Hunting Mountain" brand class 42.5 and class 32.5 R level ordinary Portland cement, with an annual capacity of 67,000 tons. The class 32.5 R level ordinary Portland cement has passed the ISO9001 quality system authentication and has been sold in many China places such as Lanzhou, Qinghai, Ningxia, and Inner Mongolia. Over the years, the factory has enhanced its technological expertise through continuous product development and the introduction of advanced equipment and technologies. Microcomputer technology and automation control devices have been used on all fronts. The production model has been known for the following characteristics: low in consumption, high in production, high quality, and environment- friendly. The factory has in place a complete and thorough quality testing system, a well-designed and executed testing procedure, and is known for its stable product quality. The plant has received many honors and awards including the "Gansu Province Cement Industry Superior Quality Enterprise" title.

ITEM 1 — BUSINESS - *continued*

- **Gansu Agriculture & Reclamation Seeding Co. Ltd.** was established in June 1998 and is an implementation unit for World Bank's seeding-commercializing loan project. It is a medium-size enterprise that integrates production, processing, sales, storage, and scientific research. Gansu Agriculture engages in activities such as crops, flowers and plants, forage grass seed, and to a lesser extent related thereto technical consultation and information service, training, production technology guidance, and agricultural chemicals. Gansu Agriculture has a quality control department, a sales department, a production field, a potato research institute, and a seed processing factory (with a processing capability of 12,250 tons per year and 5 tons per hour). In 2006 the company invested 2 million Yuan and completed a 500 ton per batch baking facility. The seed product sells nationally to more than ten provinces and cities and exports to Japan. Gansu Agriculture pursues the "quality and credibility first" principle and puts great emphasis on technology and innovation. In 2002, Gansu Agriculture won an award as one of the Top-10 enterprises in Gansu for seed quality. In 2003, Gansu Agriculture passed the ISO9001-2000 authentication on quality control and the ISO14001 authentication on environment governance. Gansu Agriculture's product quality has improved continuously while becoming more effective and more environment-friendly.
- **Tiaoshan Jialv Hops Co., Ltd.**, was founded in 1982 and for the next 20 years or so mainly engaged in the production of hops. From 1989 to 2001, Tiaoshan Jialv Hops Co. revenues increased due to a rising market and product quality. From 2002 to 2004, Tiaoshan Jialv Hops Co. started to lose market share and customers to other farms in the west due to poor hops quality. In 2006, we began to shift our production from small collective farms to large scale field industrial cultivation.
- **Tiaoshan Kexing Forest & Fruit Co.** was established in June, 1998 as part of the Gansu Tiaoshan Group, one of Ministry of Agriculture's first experimental modern enterprises. The Tiaoshan Kexing Company is primarily a fruit production enterprise. Its main products are apricots, apples, and pears. The company has passed the ISO14001 authentication.
- **Tiaoshan Shuangfeng Agricultural Co. Ltd.** is located near the edge of the Tengger desert and can be easily accessed from Gansu, Qinghai, and Ningxia. It is 171 km north of Lanzhou and enjoys convenient road/railway transportation. Currently the company owns 65,500 mu in land which has adopted advanced drip irrigation technology introduced from Israel. Its main products include seeding corn, seeding wheat, and potatoes.
- **Jingtai Tiaoshan Xinglong Forest & Fruit Co., Ltd.**, was founded in 1998, and currently has 4,315 mu in fruits plantation and 332 family farm households. The company is a forest fruit production enterprise that specializes in the production of high-quality pears. Its primary products include pears, apricots and apples. In 2002, the company developed 766 mu in high-quality pears and 775 mu in high-quality apricots. In 2004, it developed 879.9 mu in high-quality pears. Fruit production has improved from 2,000 kg per mu in the 1990s to a current level of 3,000 kg. Production rates also improved from 50% to a current level of 80%.
- **Jingtai Tiaoshan Poultry Cultivation Co., Ltd** was founded in 1985 and currently owns 8 egg hen houses and 5 nurturing houses. The company is mainly engaged in laying hens rising, feed processing and sales, domestic animal anti-epidemic service and high-tech development, and grain and oil processing and sales. There are 2 major varieties, Hailan and Haisai. Both produce brown eggs also known as red-skin eggs.
- **Jingtai Tiaoshan Yafei Forest & Fruit Co., Ltd.** The company is mainly engaged in the processing and sale of fruits. It is one of the A level national "organic fruit" production bases with approximately 23,700 mu in land. Among other things, our orchards occupy an area of 15,000 mu, including 9,500 mu of pear orchard, 2,100 mu of apple orchard, and 1,600 mu of apricot orchard, which have a capacity of producing 37,000 tons of various fruits every year. We primarily produce "Zaosu Pear", "Huangguan Pear", "Huangjin Pear", "Fuji Red Apple", "Dajie Apricot" and candied fruits with the "Tiaoshan" brand and sell to Gansu, Interior Mongolia, Ningxia, Qinghai, Henan, Shenzhen, Hong Kong, Macau and Northeast Asian countries. Yafei has long been recognized as "National Grade A Green Food Production Base", "National Green Agriculture Model Enterprise", "National Non-Environmental Damage Agricultural Product Model Base Farm", "Gansu Province Agriculture Industrialization Leading Enterprise" and "National Modern Reclamation Model Region" since 2004.



**ITEM 1 — BUSINESS - continued**

- **Jingtai Tiaoshan Yuanfeng Agricultural Co., Ltd** . Founded in 1989, the company currently owns 21,585 mu in land, including 18,332 mu of arable land. It is a medium-size modern agricultural enterprise that integrates production, operation, and sales. It is a demonstration (for other farms to learn agro – tech methods) farm known nationally for environment-friendly agricultural products. The company has passed the ISO14001 environment management system authentication. Its main products include corn breeding, processing onion, hemp, and sweet corn. The national organic food development center has certified many of Jingtai Tiaoshan Yuanfeng Agricultural Co.'s products as "organic food".

Gansu Tiaoshan Agricultural-Industrial-Commercial Group Co., Ltd.

**Registration authority** □ Gansu Provincial Industrial and Commercial Administration Bureau

The Business License (Provincial Level) was issued by Gansu Provincial administrative Bureau for Industry and Commerce

Legal Domicile: Taiyu Road No. 68, Tiaoshan Town, Jingtai County, Gansu Province

**2. Gansu Xiaheqing Industrial Co., Ltd.** Located in the Xiaheqing District, Jiuquan City, Gansu Corridor, it is north of the Qilian Mountain, in the middle of the Fenge River silts alleviation – the proluvial fan, east longitude 9850-9858', north latitude 3933'-3936', elevation 1368 meters. With the temperate zone dry climate, it has long sunny days and big temperature difference between day and night, and as well as good light and heat conditions. Therefore, it is worldwide recognized as the “golden mile” for hops planting.

Its operating entities, as described below, include Qingsheng Rural Firm, Hongjian Rural Firm, Bianwan Rural Firm, Green Star beer raw materials Company, Lvjia hops company, Maiguan beer raw materials Company. Xiaheqing mainly grows, processes and sells products such as cotton, corn, malt, onions, potatoes, sugar beet, hops and corn seeds.

In 1998, Xiaheqing introduced the most advanced drip irrigation technology from Israel and established the 23,200 mu drip irrigation water-conservation model zone which is the largest in Gansu. In 2001, it introduced the most advanced cultivation pattern from U.K. and established a mechanized 2,000-mu net-wall hop garden. With the two great Czechoslovakian-made hops picking machines, one large-scale clearing and selecting line, the entire net-wall hops garden became mechanized.

The company is a long-term supplier for large Chinese brewers, including Tsingtao Beer, Yanjing Beer, Huarun Beer, Yingbo Beer, and Chongqing Beer etc. We have created four “No.1s” in Chinese hops industry: planting area, unit production (also worldwide No.1), quality, and mechanization which makes us the signature of Chinese hops industry.

“Xiaheqing” hops have been recognized as “ **Green Food** ” by China Green Development Center for consecutive 15 years. In 2006, Chinese Ministry of Agriculture granted us the designation of “National Non-Environmental Damage Agricultural Product Model Base Farm”. We are listed as an exclusive or designated raw material supplier by many of our clients.

- **Jiuquan Qingsheng Agricultural Trading Co., Ltd** . was founded in 1999 as a limited liability company. Jiuquan Qingsheng Agricultural Trading Co. is located in West Gansu and mainly engages in the cultivation and sales of crops. Currently, the company owns 10,000 mu in land including 6,980 mu in cultivated land, 500 mu in forest, and 260 mu in fruits.
- **Jiuquan Hongjian Agricultural Trading Co., Ltd.** Founded on August 1999, the company is located in Xiaheqing District, Jiuquan City with 18,500 mu in land including 17,500 mu of arable land. It is mainly engaged in the development and sales of agricultural and subsidiary products including poultry cultivation for the sale of eggs. Based on our good credit and excellent services, the company has established long-term cooperation relationship with many enterprises.

**ITEM 1 — BUSINESS - continued**

- **Jiuquan Bianwan Agricultural Trading Co., Ltd .**, formerly a state-operated farm, merged with Xiaheqing farm in 1971 and then further merged with Yasheng Group in 1997. It has a total land of 65,000 mu, including 2,545 mu of arable land and 1,465 mu for hops production. Jiuquan Bianwan is located at the suburb area of Jiuquan where the transportation is convenient and the local climate is considered suitable for crops breeding and plantation. The company's main products include hops, brewer's barley, cotton, safflower and onions. The company's hops enjoy great reputation and are nationally known for world-leading quality and high output. The company has become a long-term supplier for the Tsingtao Beer Group, the Yanjing Beer Group and some other beer manufacturers. The company takes pride in the implementation of advanced technology. In 1998, the company introduced from Israel the most advanced drip irrigation equipment and technology. By introducing some of the best-selling variety of hops and having a state of the art processing facility, the company believes that it has greatly improved its prestige and competitiveness in both domestic and international market.
- **Jiuquan Xiaheqing Lvxing Greenstar Hops Co. , Ltd.** specializes in the cultivation and processing of hops. With an ideal local climate, the company has become the largest hops production base in Gansu with 18,857 mu in land, including 17,846 mu of cultivation field and an annual output of 550 tons. The company uses patterned cultivation and standardized procedure in managing the hops field. Hops produced here are known for their body, color, fragrance, purity, moisture, high formic acid level, and packaging. The company has won many awards including the National Science Committee Advanced Technology Award.
- **GanSu Xiaheqing-Lujia Hops Co. Ltd.** was founded in 2001 and specializes in the production of pellet hops. Pellet hops are used for beer production. The company owns and operates one of the most advanced hops pellet production line in the nation. The company takes pride in its quality hardware/software equipment and advanced testing technology. It is one of the most high-tech enterprises nationally in the hops cultivation and processing field with an annual production capacity of 3,000 tons.
- **Jiuquan Maiguan Hops Co., Ltd .** specializes in the processing and sales of malting barley. Production was first started in 1995 with an annual capacity-by-design of 10,000 tons. The company enjoys strong technological expertise and uses the Sa Latin germinating box and high-efficiency monolayer oven for production. Products are known for their fine quality as the company diligently carries out the "Industrial Product Quality Responsibility Standards" with a comprehensive quality control process. All quality indicators have achieved the superior grade stipulated by QB-1686-93 standard. In September 2001, the company won the Gansu Industrial Enterprise Quality Assurance Certificate; in November 2001, it was voted "Quality Confidence Brand" by the China Quality Examination Association; and the company has won many other awards and prizes from organizations such as the China Technology Supervision Information Association and the Gansu Provincial Industrial and Commercial Administration Bureau.

Registration Authority: Jiuquan Prefectural Administrative Bureau for Industry and Commerce. The business license (Prefectural Level) was issued by Jiuquan Prefectural Administrative Bueau for Industry and Commerce, Gansu, Province.

Legal Domicile: Aviation Road No. 2, XiaHeqing, Jiuquan City, Gansu Province

- 3. Gansu Jinta Yongsheng Agricultural Development Company .** Gansu Jinta Yongsheng Agricultural Development Company is located in Jinta County, Jiuquan City, Gansu Province, founded in 1996. Yongsheng mainly grows, processes, and sells products such as cotton, onions, apples, pears, apricots, and sunflower seeds. It has over 1,400 employees and approximately 19,000 mu of arable land.

Registration Authority: Jinta County-Level Administrative Bureau for Industry and Commerce, Gansu Province

Legal Domicile: ShengDian, Jinta County, Gansu Province

- 4. Gansu Hongtai Agricultural Technology Co., Ltd.** Gansu Hongtai Agricultural Technology Co., Ltd. is located in Gao Tai County Zhangye City, Gansu Province, founded in 1999. It has over 1,700 employees and approximately 19,900 mu of arable land. Hongtai mainly grows, processes and sells products such as cotton, corn, barley, onions, potatoes, apples, pears, apricot, wolfberry, cumin, and licorice

Registration Authority: Jiuquan Prefectural Administrative Bureau for Industry and Commerce. The business license was issued by Jiuquan Prefectural Administrative Bureau for Industry and Commerce, Gansu, Province

Legal Domicile: Aviation Road No. 2, XiaHeqing, Jiuquan City, Gansu Province.

**ITEM 1 — BUSINESS - continued**

**5. Gansu Jinta Yuantai Commercial Trading Co., Ltd.** Gansu Jinta Yuantai Commercial Trading Co., Ltd is located in Jinta County, Jiuquan City, Gansu Province, founded in 1999. It has 175 employees. The company mainly grows, processes, and sells products such as barley. The company is also a commercial enterprise that engages in the buying and selling of agricultural and subsidiary products as well as the supply of agricultural production materials. During the season, the company sends representatives to places such as Jiuquan, Zhangye, and Wuwei to set up purchasing/sales centers. Annual average purchase of brewer's barley is about 10,000-30,000 tons; annual purchase of chemical fertilizers and other materials is about 30 tons.

Registration Authority: Jinta County-Level Administrative Bureau for Industry and Commerce, Gansu Province. The business license was issued by Jinta County-Level Administrative Bureau for Industry and Commerce, Gansu Province.

Legal Domicile: ShengDiwan Jinta County, Gansu Province

**6. Gansu Jinta Hengsheng Agricultural Development Co., Ltd.** Gansu Jinta Hengsheng Agricultural Development Co., Ltd is located in Jinta County, Jiuquan City, Gansu Province and mainly grows processes and sells products such as cotton, soybeans, onions, potatoes, apples, pears, apricot, hops, and black seeds. It has over 1,600 employees and approximately 19,100 mu of arable land.

Registration Authority: Jinta County-Level Administrative Bureau for Industry and Commerce, Gansu Province. The business license was issued by Jinta County-Level Administrative Bureau for Industry and Commerce, Gansu Province.

Legal Domicile: ShengDiwan Jinta County, Gansu Province.

**7. Gansu Jinta Xingsheng Industrial Co., Ltd.** Gansu Jinta Xingsheng Industrial Co., Ltd is located in Jinta County, Jiuquan City, Gansu Province, with over 1,600 employees and approximately 30,000 mu arable land. The company mainly grows, processes and sells products such as cotton, alfalfa, barley, onions, peas, apples, pears, apricot, and black seeds.

Registration Authority: Jinta Count-Level Administrative Bureau for Industry and Commerce, Gansu Province.  
The business license (County level) was issued by Jinta Count-Level Administrative Bureau for Industry and Commerce, Gansu Province.

Legal Domicile: ShengDiwan Jinta County, Gansu Province.

**8. Gansu Yasheng America Trade Co., Ltd.** Gansu Yasheng America Trade Co., Ltd was set up as a subsidiary of Yasheng Group. The main responsibilities of this company will be (i) to manage investment funds coming from the Company through equity offerings, debt, or other financing methods. The funds will be invested into various subsidiaries and new growth projects for the Company; (ii) to manage incoming revenues from foreign sales or import and export businesses; (iii) to set up new product development, sales, and marketing entities with domestic and international administration consolidated into the company; (iv) to manage outgoing funds from the PRC for the purpose of trade, investment, or other types of financial transactions.

Registration Authority: Gansu Provincial Industrial and Commercial Administration Bureau. The business (Provincial Level) was issued by Gansu Provincial Administrative Bureau for Industry and Commerce.

Legal Domicile: 12/F, East of Yasheng Bldg. 105 Qin'an Road, Chengguan, Lanzhou, Gansu Province.

**Four new subsidiaries**

Rouge Mountain Mining Group Corp (AZ)

On November 21, 2012, we formed Rouge Mountain Mining Group Corp. in Arizona. This subsidiary is an exploration stage company formed to develop mining claims in La Paz County, Arizona and to facilitate future joints ventures with other mining companies in the United States. This new subsidiary has no operations yet.

Registration authority: State of Arizona, File number: 1805099-3

Legal Domicile: 490 Moon Mountain Ave. #111, Quartzite, AZ 85346

## **ITEM 1 — BUSINESS - *continued***

### **Lemco Yasheng LLC**

We entered into a Letter of Intent dated November 1, 2012 with LEMCO Investments Limited, (the BVI and the UK), whereby both parties expressed an interest in forming a joint venture to explore opportunities of mutual interest for the development of land-use and forestry conservation projects, including industrial agriculture, carbon emissions reductions and other forms of payments for environmental services on lands primarily in Latin America owned or controlled by LEMCO.

On January 25, 2013, the Company formed Lemco Yasheng LLC to facilitate the joint venture once executed. The company is in its due diligence phase of the endeavor.

Registration Authority: State of California, entity number: 201306310223

Legal domicile: 805 Veterans Blvd, #225, Redwood City, CA 94063

### **Yasheng Greenphil LLC**

We entered into an agreement in September 2012 with Greenphil Agua-Culture & Hydroponics Holding, Inc (Manila, Phillippines) and Greenphil Aqua-Culture & Hydroponics, LLC (California), where all parties expressed an interest in forming a joint venture to conduct business development in the Republic of the Philippines. This business will include aqua-culture and hydroponics, farming, mining and other projects.

February 8, 2013 the Company formed Yasheng Greenphil LLC to facilitate the joint venture once executed. The Company is in its due diligence phase of the endeavor.

Registration Authority: State of California, entity number: 20304210136

Legal Domicile: 805 Veterans Blvd., #228, Redwood City, CA 94063

### **Angel Star Nutrition LLC**

Dec 31, 2013 Angel Star Nutrition LLC -- a Delaware-based Limited Liability Company.

Yasheng Group and IBC will be co-owners of Angel Star Nutrition LLC, with each party holding a 50% stake in the venture. Mei P. Wu (President of Yasheng Group) will serve as CEO, while Steven P. White (President of Intermountain Brands Corporation) will serve as President. The purpose of the new venture is to produce powdered infant formula and other nutrition products for distribution worldwide.

Registration Authority: State of Delaware, entity number: 140012521

Legal Domicile: 2282 South President Drive., Suite F, West Valley, Utah 84120

## **OUR INDUSTRY**

### **Overview of China's Agriculture Climate**

China is the world's most populous country and one of the largest producers and consumers of agricultural products. Over 40% of China's labor force is engaged in agriculture. China has only seven percent (7%) of the global arable land, but feeds one-fifth (1/5th) of the world's population. China is among the world's largest producers of rice, corn, wheat, soybeans, vegetables, tea, and pork. Major non-food crops include cotton, other fibers, and oilseeds.

Over the past three decades, the PRC agricultural sector has been fundamentally restructured. Agricultural production and farm household income has grown rapidly, due to a large extent to agricultural reforms undertaken by the government. Beginning in 1978, a series of institutional reforms significantly transformed a collectivized planned agricultural sector into something resembling a capitalist structure. The crucial milestones have been the abolition of the communal property base, the introduction of the household contract responsibility system, price and market liberalization, the revision to the Land Administration Law in 1998, and China's admission to the World Trade Organization (WTO) in 2001. The farm household correspondingly has become an active agent in the marketplace in contrast to a passive production unit in the planned economy

In addition to the undertaken agricultural reforms and favorable policies, the Chinese government increasingly allocates more financial resources to "Villagers, Countryside and Agriculture". The Chinese government also determined that in 2011 it will apportion \$150 billion dollars into "Villagers, Countryside and Agriculture", an increase of \$20 billion dollars over the previous year, which helps to enhance the construction of agricultural infrastructure with a focus on water resource facilities, continue improving livelihood in rural areas, and increasing peasant incomes. Further, Chinese Central Bank specifically arranged \$1.5 billion more to refinance agricultural enterprises in the Northwest (including Gansu Province) which were adversely affected by the drought in 2010, thus supporting the agricultural harvests for next year.



## **ITEM 1 — BUSINESS - *continued***

In February 2014, the world market prices of staples food biggest gain since the middle of 2012.

The food and Agriculture Organization of the United Nations report that the February food price index reached 208.1 points, 5.2% higher than in January, emphasizes at the same time, last month the price still 2.1% lower than the same period of last year.

At the same time, in February of this year, the average meat prices increased by the 0.5%, and other Food prices increased by the 3.6%, vegetable oil and sugar rise respectively 4.9%, 6.2%, and dairy products prices increased by 2.9%.

FAO pointed out that Ukraine's political tension is one of the reasons for the rise in food prices, the prices of other factors including the drought in Brazil, Southeast Asia and South America exceeding one's expectations of weather conditions, and the demand of North America, including food and biofuel production.

The Food and Agriculture Organization of the United Nations has predicted recently that global food prices will remain high in 2013. Under the current situation of low food storage, if there happens to be poor global harvests, a new round of price increases may probably occur.

### **Food Supply Issues Facing China**

Although China has limited arable land, China agriculture produces enough food supply to feed the country with a large population. With only seven percent (7%) of the world's cultivated land, China has to feed one fifth (1/5th) of the world's population. As a result, China's agriculture is an important issue and draws wide attention from its government and the world.

The agriculture sector has developed rapidly since reforms in the rural areas began in 1978. The major reforms were: the household contract responsibility system, which restored to the farmers the right to use land, arrange farm work, and to dispose of their output; canceling the state market monopoly of agricultural products, and of price controls over most of agricultural and ancillary products; abolishing many restrictive policies, allowing farmers to develop diversified business and set up township enterprises so as to fire their enthusiasm for production. The reforms emancipated and developed rural productive forces, promoted the rapid growth of agriculture, particularly in grain production, and the optimization of agricultural structure.

In the 1990s, China's agriculture and rural economy faced unprecedented difficulties and challenges. But development momentum maintained fairly good, with most products in surplus and supply and demand basically in balance every year. According to the United States Department of Agriculture ("USDA"), China leads the world in output of grain, cotton, oil plants, fruit, meat, eggs, aquatic products and vegetables in volume.

Since 2009, prices in agricultural products have significantly risen in China. According to the prediction of Ministry of Agricultural of China, the uptrend in prices will be irreversible for a long time. There are various reasons for this uptrend in agricultural product prices. First, the supply and demand are structurally imbalanced in japonica rice, edible oil, soybean and protein feed market where the demand increases rapidly. Second, natural disasters are showing aggregating trends which impact the risks of food production. Due to global climate changes, natural disasters occur more frequently in China. In recent years, China's annual grain has lost up to 50 billion kilograms. Third, the situation of depending on Heaven for harvest has not fundamentally changed in China. Chiefly, agricultural infrastructure is relatively weak with a poor capacity to resist natural disasters. Finally, the increase in production cost adversely affects the comparative benefit of food producing. The growing cost, including the increase in prices in energy resources, labor force and land, boost the increase in food price. Food production is gradually entering a high-cost era.

According to Food and Agriculture Organization of the United Nations ("FAO"), the global price soaring in basic food has triggered a new round of food crisis which is primarily due to the surging oil price and recent sharp incline in global cereal stock and will intensify the risk the supply crisis. According to USDA, it forecast a record price increase in farm-gate products and sequent food price inflation in 2011.

### **Growth of China's Agriculture Industry**

According to the USDA, China and the United States are among the world's largest agricultural producers and exporters of agricultural products. China's agriculture continues to change as it responds to the rising and increasingly sophisticated demands of domestic and foreign consumers, adapts small-scale farm structure to global food markets, and competes with other sectors for labor, investment capital, and scarce land and water resources.

China's agricultural products trade has increased by 63.8% to \$92.3 billion dollars in 2009 from \$56.4 billion dollars in 2005, which makes China become the third largest agricultural products trading nation worldwide. The market share in the United States ("U.S."), Association of Southeast Asia Nations, and South America is stably rising; The market share in the European Union is essentially flat; West Asia and Africa are being actively expanded; and market share in Japan and Korea slightly declines. In this process, eastern China maintains its leading role and central China achieves steady development while northwest China (Including Gansu Province) rises in excess of the average increase, which leads to a good balance in agricultural product trade and facilitates agricultural industry restructuring and comparative advantages among different regions.



## ITEM 1 — BUSINESS - *continued*

Furthermore, the Chinese government has established the following policies to support agricultural industry and companies in China:

- Intensifying reforms of agricultural tax, exempting the agricultural tax and agricultural surtax.
- For those farmers who grow crops, the country will implement the policy of giving direct subsidies to those farmers who grow wheat and corn.
- Implementing the policy of giving direct subsidies to those farmers who acquire and renew their large-scale agricultural equipment.
- Increasing fine seeds subsidy investment.
- Stabilizing the prices of agricultural means of production.
- Conscientiously implementing the national and provincial policies of tax cuts and exemptions and price control. Providing support to enterprises in terms of taxation, investment and financing, the use of resources, personnel policy.
- Income taxes is exempted for agricultural enterprises and institutions (including the enterprises and institutions such as agriculture, land reclamation, agriculture and animal husbandry, fisheries, forestry, water conservancy, meteorology and overseas Chinese farms) engaging in planting and breeding industries and initial handling of agriculture and forest products.

## CORPORATE DEVELOPMENT STRATEGY AND GROWTH

Our strategic plans include the reorganization and expansion of our product portfolios and steam-lining of our company operations to focus on key business lines that have potential for long term growth into domestic and international markets. Through the reorganization plan, we intend to streamline management and began to structure the operations and internal controls to lay the foundation for global and international expansion. We have enlisted many international experts and consultants as well as added key management with western and eastern business and finance experience. We are also in the process of implementing an enterprise system to upgrade internal and external communications and internal management controls.

Our growth strategies include the following:

- Hold and grow existing domestic market positions with premium quality products with a focus on customer satisfaction with consistent availability. Continue the strategic consolidation and segmentation of our products with a focus on products with high margins and high potential growth rates.
- Continue the transformation from the collective family farms to industrial scale farming resulting in more control over the quality, consistency, and yields of our products.
- Expand product line with new byproducts by utilizing modern processed food technology (such as CO<sub>2</sub> extraction techniques, deep processing, concentrates technology and bio mass for alternative fuels) that produces high quality products and environmental friendly products that meet the demands of the domestic and international markets. Byproducts include fruit and vegetable concentrates, food extracts, nutritional beverages, edible and bio oils, organic and environmental friendly products, frozen and fresh vegetables, and packaging.
- Strengthen industry research focusing on shifting trends and demands for strategic cultivation. Maintain flexibility and diversification to efficiently increase or decrease production or cultivate new products that are in demand. Continue to implement the long term strategy of supplying key core food staples to domestic and international markets.



## ITEM 1 — BUSINESS - *continued*

- Continue to implement product quality upgrades through high tech agro technology. Continue to acquire and develop new hybrid strains agro products that improve quality, yield, and overall cultivation methods. Expand cultivation area by implementing more high tech irrigation systems and other modern agriculture techniques. Expand seeding and propagation technologies to consistently supply growers and meet the demands by expanding the company's agriculture base.
- Expand domestic and international business development and sales departments to open the doors to new markets. Strategic product development to meet the demands of specialized markets such as institutions, organic niche markets, and retail volume outlets. Continue to establish long term relationships and business networks with industrial scale agricultural contracting to food and beverage processors and distributors. Strengthen global and domestic logistics and distribution networks.
- Expand animal husbandry division, agriculture chemicals, fertilizers, animal feed, and environmental products and continue to implement the vision as leading company in sustainable agricultural practices.
- Internal and external acquisitions that bring added value in technology, management, production capabilities, and open up new markets and distribution points.
- Continue to develop high end environmental products. Currently, we have the technology and the infrastructure to grow many types of bio mass materials. We have also completed several feasibility reports and R&D for the development of bio friendly products such as bio plastics, bio mass molding products, bio fuels and others. We already have the technology and know-how to grow large quantities of bio mass materials. We plan to develop more agriculture products from our current product portfolio by utilizing current resources and investment into processing facilities as the PRC national policy moves towards alternative energy. We are also seeking outside cooperation in building large scale alternative energy projects, such as bio plastics, bio fuels, methane, and others.

### **Merger & Acquisitions Strategy**

We are seeking strategic cooperation and acquisition opportunities with companies that own new technology, new distribution network and innovative management with high return. One of our long term objectives is to generate revenue and build assets and long term distribution channels outside of China through merger and acquisitions.

We will primarily focus on acquiring companies that have a direct relationship to our existing businesses and industries. A strict due diligence process is required and a feasibility study will be conducted to ensure these acquisitions will yield long term benefits and support the global expansion plan.

Industry related distribution companies will be targeted in all product categories which can expand our reach by opening channels and upgrade the overall logistics systems. Parameters will be set to stay in line with the master plan in relation to geographical markets and strategic positioning. Long term client relationships will justify the investment in solid quality distribution systems.

A major focus of our mergers and acquisitions strategy will be seeking profitable technologically advanced companies that have advantages and can be adopted by the Chinese operations. We believe by building from the outside - we expect to achieve our goal in becoming a global leader. Successful and innovative technologies will remain a key principle in our policies into the future. Developing these areas will be essential in maintaining a competitive advantage.

We plan to invest up to and in excess of \$100 million to acquire speculative mining claims whose exploitation may never be possible if we don't obtain the permits required by law and regulation and/or which may not be capable of being mined in a manner that permits the sale of the extracted minerals at a price in excess of the costs of extraction and/or processing and transportation. How the mining claims may be treated for financial reporting purposes will depend on the proven reserves of each such set of mining claims, costs of extraction and applicable federal and state securities and accounting laws. However, the entire investment will not have a material effect on the overall financial strength of the Company in case the investment therein is lost or not recoverable. Any such venture will not cause us to violate any covenant in any borrowing or investment agreements. It will neither restrict our extensive operations in China nor our expansion and will not have a material effect on the share value of our shareholder's common stock. While there are high risks involved in pursuing the acquisition and exploitation of mining claims and mining operations, there is also the potential for high rewards. We have sought the advice and counsel of recognized professionals involved in the mining industry to assist us in our evaluation of mining prospects brought to us by brokers and to document and guide us in any mining venture we might become involved with.

## **ITEM 1 — BUSINESS - *continued***

Yasheng has successfully completed the first shipment of its Angel Star infant formula from the United States to China. Angel Star infant and toddler formulas are composed of milk ingredients sourced from high quality U.S. suppliers – all of which are under stringent USDA/FDA inspections. Other key ingredients are sourced from US suppliers known to produce the highest quality/purity ingredients. All facilities that produce process or package Angel Star products conform to USDA and FDA inspection and license requirements.

Yasheng group sells its products through an extensive nationwide sales and distribution network covering 19 provinces and over 118 cities in China. The company has approximately 232 distributors and 38 direct clients.

“With about 16 million births a year, China is one of the world’s largest markets for baby food and infant formula, representing around 23 percent of the \$41 billion global market, according to a recent study published by Euro monitor International, a research firm in London.”

We intend to become a global leader by placing assets, revenues, and operations in several key geographical locations that will allow a balance of business. This balance will enable us to fluctuate with changing market demands and conditions, and place safeguards and position us to quickly make strategic decisions on profitability on a timely basis.

### **BUSINESS SEGMENTS**

Our businesses primarily consist of farming and, to a lesser extent, cement manufacturing. Our farming and food related products/premium specialty deep processed food and agricultural byproducts contain numerous operating divisions that produce, process, market and distribute a variety of premium agricultural products grown in Northwest China. As such, with the exception of Gansu Baiyin Agriculture and Reclamation Company, all other subsidiaries of the Company are primarily agricultural enterprises. Included in our consolidated financial statements are results from the Company’s cement manufacturing business operations. For the years ended December 31, 2013 and 2012, this business contributed revenues totaling \$6.84 and \$6.75 million, respectively, which represents less than 1% of total consolidated sales for either year. The business volume of this segment has been and is expected to continue to remain relatively constant and is not significant to warrant separate segment reporting. See Item 7. Management’s Discussion and Analysis of Financial Condition & Results of Operations.

### **AGRICULTURAL MARKET**

Our primary business segment is premium specialty deep processed food and agricultural by- products. We specialize in cultivating, processing, marketing, and distributing a variety premium specialty agriculture product grown in Northwest China. Our product portfolio is diverse within a broad range of industries. The Company is organized within the eight agricultural production areas and our products are sold within eight separate and distinct markets.

A substantial portion of our products are classified as “Green Food”, and reach PRC and international quality standards. Through our R&D department, we continue to raise quality and standards as well as develop new products. We have the ability to adapt to industry trends and market factors with a flexible product portfolio. Our diverse product portfolio includes perishables and processed foods sold in volume, repackaged into units, or sold directly to consumers in local markets. We produce main staples for animal feed, fertilizers, and agro-industry products such as edible oils, or bio-construction materials. We also grow many fresh fruits and produce which we supply the local and provincial markets.

### **AGRICULTURAL PRODUCTS**

Agricultural products have been and are expected to remain our primary product base. We remain a national strategic commodity supplier for China but continue to enter into the high end markets with quality agriculture products.

## ITEM 1 — BUSINESS - *continued*

Our primary product offering includes over 30 agriculture products under the following six areas.

- Field Crops: Cotton, Corn, Barley, Wheat, Flaxseed, Alfalfa
- Vegetables: Onion, Potato, Beet, Pea
- Fruit: Apple, Pear, Apricot
- Specialty Crops: Hops, Wolfberry, Cumin, Hemp, Liquorices Root
- Seeds: Black Melon Seeds, Sunflower Seeds, Corn Seed, Flax Seed
- Poultry: Eggs

In addition to the major products listed above, we also produce many additional fresh fruits and vegetables which supply the local and provincial markets. While these products will remain our main source of revenue, we plan to further diversify our product mix and increase the processing volume to meet market demands. We also intend to establish new deep processing lines for the current product mix, which will allow us to develop high end byproducts with the greatest growth potential, reaching new markets. Furthermore, we plan to continue to focus on our higher margin deep processed products in the future and have begun implementing a strategic plan to expand our product line with byproducts from our core cultivated agro raw materials such as hops extract, flavorings, deep potato processing, organic fertilizers, animal feeds, eco-friendly pesticides, and bio energy.

We generated approximately 22.7% of our revenues from field crop based products, 14.9% from vegetable based products, 30.1% from fruits, 21.1% from specialty crops, 11.2% from seeds, and 1.9% from poultry products and the residual from other production during the year ended December 31, 2013.

### **Agricultural Production Markets.**

The following are the categories of agricultural production markets in which are products are marketed:

- **Strategic Commodities** are produced to supply domestic demands. These products are sold directly to a network of local, provincial, and national purchasing houses based on the current global market price managed by the PRC agriculture department. The products are then resold to processors for use in different industries.
- **Institutional Contract Growing** is a large part of our business model. Institutions and large food and beverage processors establish long term contracts to grow products that meet the processors needs and standards. We work closely with processors to establish demands and assure quality for long term contracts.
- **Consumer Direct Wholesale Markets** purchase our perishable fruit and produce to sell to the public. These products are sold directly as well as through small distribution companies and sold on a locally, provincially, and nationally.
- **Domestic & Export Food Distribution** companies pre-arrange volume purchase contracts for our fresh and processed products of the Company. These products are distributed to high end markets such as Hong Kong, other coastal cities, and for export. The products are then sold to the public through supermarkets and or sold to food processors.
- **Animal Husbandry** division consists primarily of eggs to be sold fresh and or packaged to wholesale food markets for resale to consumers.

## **PRODUCTION**

### **Production Bases**

The production of our products is supported by seven large scale agriculture bases spread out over a vast geographical area within the Northwest of China. Over the past 30 years we have transformed the family plot style farm into industrial agriculture operations with infrastructure to support long term growth. R&D support has fueled development with new and high tech products, placing the Company as a major strategic player within the industry. Infrastructure needs such as water, roads, and power are supported in coordination with local governments.

Each of our wholly-owned subsidiaries is considered an agro-base with several types of properties making up the operations. The seven agro-bases are made up of fields, orchards, hop houses “Green houses,” with infrastructure, processing and storage areas, irrigation systems & water storage, wind breaks, power generation plants and transmission lines to feed the agro base operations. Each company has standard storage for cultivation equipment and processing harvest materials as well as the necessary capabilities for packaging and pre-delivery storage.



## **ITEM 1 — BUSINESS - *continued***

Each agro-base is made up of both modern industrial farm and local farming operations with many types of processing lines. The majority of farms use high tech irrigation allowing for water efficiency, reducing the presence of insects, therefore minimizing the need for heavy pesticides. Our focus on efficiency by applying new high breed strains, high tech growing techniques, modern processing and storage facilities, supported by modern logistics that maximize our products' abilities to compete. Our vision has been to establish sustainable farms utilizing agro techniques that are beneficial not only to the consumer but also to the environment.

### **Production Infrastructure**

We have made substantial investments in improving fields and building infrastructure such as transportation routes, high tech irrigation, green houses, wind shelters, and cold storage. We possess the ability to produce high quality seed stock, bio-fertilizers, bio friendly pest control technology, strict quality controls with specifications of our operational processes such as breeding, harvesting and grading. We have also established a strong technical management team to train and monitor the operations.

Each of our agro-bases has a company office where administrative functions take place. Total office space equals approximately 30,000 mu of land use rights of 70 years with about 35 average years left. Each agro-base administration office has a centralized system for supporting management and employees. Residence quarters for employees and managers are provided adjacent to offices, with medical, recreational, & food services. Schools are also part of the agro-base supporting employees' families as well as training centers for further education. In certain areas, high speed internet access is also available.

All properties lie in a strategic position within the Gansu province and include modern national highways and railways to all major cities. The agro-base properties also consist of fuel stations, general commodities stores, and other sideline businesses.

### **Production Efficiency-High Tech Agriculture**

We also seek to increase efficiency by applying new high breed strains, high tech growing techniques, modern processing and storage facilities, supported by modern logistics that maximize our products' abilities to compete. Our vision has been to establish sustainable farms utilizing agro techniques that are beneficial not only to the consumer but also to the environment.

We also invested in several new hi-tech industrial projects including the introduction of the most advanced drip-irrigation system, through a joint venture with Netafim, a global leader in advanced drip irrigation systems, and Gansu Yasheng Industrial Group. The facility has an annual capacity of 120 million meters, all of which is carried out according to Netafim technical standards. The facility offers irrigation systems and related technology that aid in the optimization of water and fertility of crops, which increases yields while lowering production costs.

The shift from traditional farming to modern, hi-tech precision agriculture is expected to make us the largest, high efficiency agriculture base in China.

### **Expansion of Production Capacity**

We believe that an expansion of capacity is needed to satisfy increased demand for our products. In order to increase our production capacity, we must make capital investment to build additional cultivation bases and processing facilities to satisfy the projected demand of our products.

## **LOCATION**

Our farms are mainly located in Gansu Province in China. The terrain in Gansu Province is long and narrow with very different geomorphologic landforms. The annual average rainfall is 100-300 mm with long hours of sunshine and sandy land.

The irrigation water mainly comes from the Yellow River and the glacial mineral waters of the Qilian Mountains. The soil and climate in Gansu Province are very suitable for the growth of potatoes, watermelons, tomatoes, barley, hops and orchards and other crops. There is also low humidity in the air and large temperature difference between day and night. Such special climatic conditions not only reduce the occurrence of plant diseases and insect pests, but also increase the sugar density and starch accumulation in the fruits and crops of various types, resulting in producing high quality products.

As a result of global climate change, expected by 2020, an uptrend is expected of temperature and rainfall. Precipitation across the province shows a consistent increasing trend, which should increase by 0.82% ~ 7.63%, among which Jiuquan in the eastern part of the Gansu Province experiences more obvious increase in precipitation with an increase of 6% ~ 7.63%.

## **ITEM 1 — BUSINESS - *continued***

Temperature in all parts of Gansu Province will be higher. The increased rate of the temperature is increasing slightly from east to west. Temperature increase range is between 0.68 degrees and 0.95 degrees. The temperature increase in the western region of Gansu Province is slightly higher than that in the other parts. We believe that the special climate change will be more conducive to the needs of agriculture illumination, temperature, and humidity.

Our operations are located in Gansu Province Northwest where the environment is not impacted by industrialization as much as other areas in China. What's more, the country is moving to further preserve the land resources to sustain conditions to grow high quality products.

We utilize various irrigation methods, including drip irrigation, river irrigation, well irrigation, pipe irrigation (tube feeding), and sprinkler irrigation, etc. The irrigation water used for our company's cultivated land located in the western part of Gansu Province is primarily from the snow glacial water of Qilian Mountains. The irrigation water used by our company's cultivated land located in central and eastern parts of Gansu Province is mainly from upper Yellow River.

Among other things, 70% of our arable land has adopted drip irrigation with a focus on fruits, corn, cotton and hops. The crops adopting the methods of river irrigation, well irrigation and pipe irrigation (tube feeding) are mainly barley and wheat. The crops adopting sprinkler irrigation are mainly liquorices and alfalfa.

To conserve water resources and to alleviate the problem of water supply shortage, drip irrigation has become an increasingly popular choice. Modern drip irrigation technology can optimize water usage while enhancing plant beauty and health. It will control both biochemical and physical indices for crop and flower growth and allows precise adjustment of water, fertilizer and, insecticide usage. It also moderates the extreme cooling effects sometimes produced by flood-type irrigation. We have introduced the most advanced water-efficient drip irrigation techniques and equipment from Israel to ensure efficient water use on large-scale intensive agricultural projects in the fertile but water-scarce Hexi Corridor. The first drip irrigation project in Jiuquan region was completed in September 1998 and is now in successful production. We have now received government approval for and begun construction of a further 2,667 hectare arable and 667 hectare a hop farm both using drip irrigation.

Meanwhile, we have built four large reservoirs with a water storage capacity of 260,000 cubic meters each. The crops served by drip irrigation generally can get water-soluble liquid fertilizer through the drip irrigation system. These fertilizers mixed directly with irrigation water, fertilizing the crops through the drip irrigation plastic pipes. This irrigation solution can save water and labor cost while increasing the utilization of fertilizer.

In the course of cultivation, we make full use of drip irrigation and plastic mulching to plant our agricultural products. Its roles are hydra and heat preservation which has improved the utilization of fertilizer, reduced costs, and ultimately increased crop yield and quality. We have dedicated many resources to implementing modern agriculture techniques into the fields.

## **SALES AND MARKETING**

Our products are derived from years of agriculture experience and over the years these products have grown to be distributed to high end markets all over China, including Hong Kong. We have established a significant presence in supplying the demand for food products in China with long term contracts and cooperative relationships in meeting quality standards. Historically, we have been able to meet supply needs by establishing agro bases with diverse portfolio products that stretch across many agriculture and food product types. We also work closely and collaborate with local government and have established an effective group of managers to minimize over production and watch global industry trends closely. In addition, we have also established strategic distribution and processing partners and who have their own distribution and processing abilities.

The per unit costs of producing our products are subject to the supply and price volatility of raw materials, especially fresh fruits and vegetables which are affected by factors such as weather, growing conditions and pests that are beyond our control. We believe our pricing remains competitive because of our control over necessary resources and low cost labor, high tech agriculture practices as well as long term relationships with our customers.

### **Production Development, Marketing, and Sales Coordination**

Our business development, marketing, and sales team is made up of staff at the local, provincial, domestic and international levels. Our business development team works directly with intuitional buyers and coordinated production. Marketing and sales teams in different regions adapt strategies to the regions needs as well as interface with customers, business development, and directly to production bases. We have established customer direct communications with production bases with institutional buyer to ensure quality control, tracking, and delivery.

## **ITEM 1 — BUSINESS - *continued***

### **Sales Channel and Distribution Network and Pricing**

Our products are sold directly to buyers and distributed through food suppliers. We also belong to the strategic commodities distribution network as a preferred supplier. We take pride in the long term relationships it has established for a consistent flow of product with continued product satisfaction. A major portion of the Company's business is contract growing for institutional food and beverage processors and sold directly to processors.

We currently sell our products to both distributors and direct customers across 19 provinces in China including: Gansu, Shanxi, Beijing, Shandong, Liaoning, Guangdong, Tianjin, Shanghai, Ningxia, Qinghai, Hebei, Inner Mongolia, Xinjiang, Jilin, Hubei, Guizhou, Xizang, and Hainan. At December 31, 2013, we had approximately 219 distributors and 38 direct customers in China. We export our products indirectly through the Chinese companies with import and export qualification and licenses.

Our distributors sell our products to their various customers, including food processors, supermarkets and wholesale stores. Since 2002, we have been fully implementing the operation approach of "contracted management, unified purchase and sale". We begin to grow crops in March and April each year. The harvest seasons are from the end of June to mid-November. About 70% of our sales are sold across the country through the distribution network. At the end of each year and at the beginning of the second year, supply and sale contracts of that year will be entered into between the retail traders and the subsidiaries. In the contracts, purchase volume and products specifications will be determined generically, but the contracts do not determine the price for which the products will ultimately be sold. The price in the distribution contracts is usually determined by the market price of the year's harvest seasons. In the busy farming seasons, as a result of large farms, we employ tens of thousands of temporary workers in order to ensure the timely completion of harvest task.

We typically enter into annual contracts with some of our distributors that are renewed at the beginning of the year. We maintain stable relationships with our distributors, and many of them have been our distributors for more than three years. No customer or distributor accounted for more than 10% of our total revenue in fiscal year 2013.

We set up a trading company in 2010 to manage foreign investment and incoming revenues from overseas businesses and as well as to set up a new product development, sales, and marketing entities with domestic and international administration consolidated into the company. We believe that it will strengthen our sales and marketing, particularly the exporting of products.

### **RESALE SUPPLIERS**

During the year ended December 31, 2013, we derived a substantial portion of the materials from which we produce our products for resale from many suppliers in Gansu and Northern China. Dependence upon a limited number of suppliers poses business risks, which is one reason that we have a diverse choice of vendors for our operations. These suppliers make up seed, animal feed, fertilizer, agro business materials, incidental construction materials, and other related agriculture industry supplies companies.

### **COMPETITION**

Since we are the largest agriculture company in Northwest China and provide premium quality products to the market, we believe we face little direct competition from the Northwest of China. Most of our competitors are smaller-sized local farms or medium size food processing companies. Compared to these competitors, we believe we have more diversified products, higher production capacity and greater resources as well as long term strategic relationships with national clients. We are designated as a national strategic supplier of commodities and supported with long term contracts with major institutions.

Finding a competition model is difficult because our product portfolio is very diverse across six agricultural and food industry markets. Our business model is unique in the way that our agro bases cultivate, process, and distribute many agricultural products but also produce many byproducts. However, we expect more competition to come from overseas as the WTO opens up the market to foreign competition. With increased international and domestic investment into medium enterprises, we anticipate that there may be more competition from niche enterprises focusing on high end products.

Some of Chinese major agriculture companies, such as Chaoda, continue to diversify their product portfolio focusing on industries related to us. We are also facing competition from the following companies:

## ITEM 1 — BUSINESS - *continued*

- China National Cereals, Oil and Foodstuffs Corporation (COFCO) operates many businesses, among them a food importer and exporter and a bottler for Coca-Cola products in mainland China. The company holds a monopoly on mainland China's grain trade, but COFCO's interests are diversified to include tea, wine, edible oils, canned food, confectionery, ingredients, livestock and meat, hotels, packaging, real estate, and finance. Nine major divisions and more than 30 subsidiaries offer brands including Fortune edible oils, jellied candies, Jojok meat, Great Wall wines, the Gloria Hotel Group, and Le Conte chocolate. COFCO is state-owned and under the administration of China's Assets Supervision and Administration Commission.
- China Grains and Oils Group (CGOG) processes and sells a variety of grain and oil products. Its activities include grain, oil food, and feedstuff processing, and domestic and international distribution of various food products. The company operates through some 21 subsidiaries that distribute wheat, corn, rice, oil and fat, oilseeds, coarse grain, and beans, among other products. CGOG sells to international customers in the US, Europe, Japan, and throughout Southeast Asia. The company is state-owned and under the administration of China's Assets Supervision and Administration Commission.

### Competitive Position

All of our existing operations and manufacturing are located in the Northwest of China. We benefit from the favorable operations and manufacturing environment in the Northwest of China, such as lower labor rates and lower raw material costs for most of our products compared to other areas in China and the world. Our access to China's operational and manufacturing environment advantages is one of primary strengths. The economies of scale play an important role in our products competitiveness in the market place. We control vast land and natural resources that are integrated and utilized in the production of all our products. This is an important factor in being competitive in the markets served. The ongoing addition and implementation of state-of-the-art production and manufacturing technology, for both agricultural and industrial products, provides a buffer between us and the competition for the majority of our products. Utilizing the most current production and manufacturing technology assures high quality and cost effective product.

### Our Competitive Advantages

We believe that our success to date and potential for future growth can be attributed to a combination of our strengths, including the following:

- **Industry Trend Flexibility** . Our ability to adjust our agricultural structure and improve the quality of agricultural products has resulted in the comprehensive development of the agricultural economy. Planting structure has also been continuously optimized which has developed from traditional agriculture to cash crops. The production of the cash crops such as cotton, oil, sugar, hemp, fruits, vegetables and other crop production have relatively access to rapid development. The main agricultural products concentrate on the predominance-areas is speeding up and the level of quality of the agricultural products has been further enhanced.
- **Scale advantage over local competitors** . The PRC agriculture market currently is highly fragmented. We are larger than our domestic competitors when considering the companies large diverse product portfolio, vast amounts of land under cultivation & abilities for industrial scale production volumes. This provides us with many competitive advantages, including the resources to ensure high quality products and better controls to secure consistent and reliable supplies to large customers. Our scale and increasing nationwide market exposure supports development of our brand name.
- **High Tech Agriculture Abilities** . We have the characteristics of advanced level of modern agricultural technology, a high degree of organization, a large market capacity and yield good economic returns. Our ability to compete is better, we believe, than the traditional agriculture companies. The application of agricultural techniques, such as biological husbandry, genetically modified agriculture and water-saving irrigation, has increased agricultural single rate and quality.
- **Alignment with PRC Agriculture Development Policies** . We can ensure sustained and stable growth of modern agriculture in the aspects of capital, technology and manpower, and can speed up the process of industrialization of modern agriculture and export-oriented operations and can also enhance its international competitiveness. The development of our Company can adapt to China's development direction of agricultural policy. Based on our own funds each year, the Agricultural Development Bank of China can provide partial supporting funds.



## ITEM 1 — BUSINESS - *continued*

- **Successful Operating Mode** . Our operating mode of modern agriculture in our Company has reached advanced domestic level in the aspects of policy arrangements, institutional design, coverage, as well as large farms covering small farms and processing enterprises linking the farming households. We have set up and amplified a sound modern agricultural operation system which incorporates processes to accommodate and maximize efficiencies, such as job responsibility, multilevel operating, multi-channel and multi-level responsibility sharing.
- **Long Term Established Relationships** . Local, provincial and national long term relationships have been a key advantage for the company as they have established long roots in Northwest China. Our ability to take on challenges, implement large scale projects, and produce national leading products have brought much respect and confidence by the governmental and other business leaders in China. We have been honored as one of the top leading industrial companies in China, therefore receiving preferential policies and most favored abilities to take on new projects promoted by the Central Government.
- **Geological Agro Advantages** . The climate of Northwest China plays a key role in our competitive advantage. The long days of sunshine, low humidity, temperature difference between day and night, and aerated soil, all contribute to the production of quality products of size, flavor, and nutritional value. Most products are grown organically and contain no pesticides. These favorable climate conditions lower cost of production because the use of pesticides or heavy fertilizers is not needed. An additional climate factor is low industrial complex and population in Gansu lowers the impact of pollutants on the environment.
- **Extensive Sales and Distribution Network** . Our extensive sales and distribution network allows us to reach a wide range of customers all over the nation. As of December 31, 2013 we had approximately 218 major regional distributors in 19 provinces. Our distributors sell our products through their own network in the region to their various customers, including food processors, supermarkets and wholesale stores. We have a stable and effective group of distributors who helped to sell our products all over China.
- **Experienced Management Team** . Our management team has extensive operating experience and industry knowledge. Dong Ye, our Chairman and CEO, has over 30 years of experience in the agriculture industry. Our senior management staff has extensive local industry experience combined with international experience. We believe that our management team's experience and capabilities have contributed greatly to our significant growth in the past years.
- **High Tech Irrigation Techniques** . Our drip irrigation also allows for the most efficient water application keeping the costs down. Ground and runoff water come from the upper reaches of the Yellow River or Qilian Mountain glaciers therefore lowering the impact of pollution coming into the water table. Gansu province has a direct water source and is not downstream from neighboring industrial provinces.
- **Significant Barriers for New Competitors** . We have spent the past three decades investing significant resources to acquire land, build infrastructure, research and development to grow its business. A new competitor would need to acquire large tracts of land within the same geo agro conditions we have to develop the same type of diverse product line. The new competitor would have to deal numerous local and provincial government agencies and current land tenants to secure leases and land use rights needed for large scale operations. If the competitor was able to secure the land, it would need a substantial amount of time, investment, and resources to bring operations up to our capacity. It would also take a lot of time to reach profitable operations.

## CARBON CREDIT GENERATION AND TRADING

Liu Yanhua, a member of China's National Climate Change Expert Committee, said at the CEC Economic Situation in 2011 and Analytical Prediction Meeting of Electric Power Development held on March 26, 2011 that, in the eyes of many developed countries, China is likely to become the world's largest carbon market in the future. It is understood that in 2009, the market value of the global carbon market reached \$144 billion and in 2010 it reached \$150 billion. People in the carbon industry estimate that the global carbon market turnover is expected in 2013 to outnumber oil for the first time and that by 2020 the global carbon market will grow to \$3.5 trillion. Global carbon trading in 2013 is expected to outnumber oil for the first time.

In tackling climate change, whether the negotiation situation China is facing or domestic policy preparation, China is facing increasing pressure to deal with changing climate situations. Liu Yanhua stated he expects that the international community will form carbon market rules in the future that are similar to the WTO rules. In order to gain the initiative, China needs to intensify the policy preparation in encouraging the carbon finance market.

## ITEM 1 — BUSINESS - *continued*

It is understood that China's GDP accounted for 7% of the world in 2009, but emissions accounted for more than 20% of the world's total. The people in the carbon industry predict that China's total emissions in the future are likely to rise from nearly 7 billion tons to 10 billion-12 billion tons.

It is understood that the global carbon market turnover was more than \$120 billion in 2009, almost equal to the amount of oil trading. Europe has become the world's largest carbon buyer. In 2009, Europe's transaction volume reached 6.2 billion tons of carbon dioxide emissions equivalents, which accounted for 73% of the total global trading. In 2009, the weighted average of the prices of carbon trading around the world increased by 17% over 2008, rising to \$17.9 from \$15.3 per tons of carbon dioxide equivalent. The weighted average carbon price increased by 6.6% in 2010, from \$17.9 per tons of carbon dioxide equivalent in 2009 to \$19.1 per tons of carbon dioxide equivalent in 2010. In 2011 the carbon price dropped to a record low, but due to having stimulated liquidity, deal activity increased sharply, so that the market value of the global carbon market in 2012 increased by 4% compared to 2010 and the transaction value of European Union Carbon Trading System rose to \$130.9 billion, an increase of 6% over 2010.

Currently, China is the world's largest seller of carbon credits. According to World Bank estimates, the CDM projects in China account for more than 50% of the world's total demand. As of the third quarter of 2011, China issued over 400 million tons of Certified Emission Reductions (CERs), which is the biggest seller of international carbon emissions trading market. Currently, the CDM projects in China are mainly for "export". The domestic market in China is almost zero.

We entered into a Letter of Intent dated November 1, 2012 with LEMCO Investments Limited, (the BVI and the UK), whereby both parties expressed an interest in forming a joint venture to exploring opportunities of mutual interest for the development of land-use and forestry conservation projects, including industrial agriculture, carbon emissions reductions and other forms of payments for environmental services, on lands owned or controlled by LEMCO in Latin America.

### Location and operations

We intend to conduct this business through Lemco Yasheng LLC which we formed in January of 2013 to facilitate the joint venture with LEMCO Investments Limited, (the BVI and the UK) once the joint venture is executed. Lemco Yasheng LLC is still in its due diligence phase of the endeavor and has not made a final decision on how and when it will proceed. Under the proposed joint venture, Yasheng will provide Lemco Yasheng LLC with strategic agricultural management for sustainable use, forestry conservation, new tree plantation, mineral mining, and environmental services including the sale of carbon credits on the China Environment and Carbon Exchange .

## HEMP AS AN AGRICULTURAL COMMODITY

“ Summary Industrial hemp is a variety of **Cannabis sativa** and is of the same plant species as marijuana. However, hemp is genetically different and distinguished by its use and chemical makeup. Hemp has long been cultivated for non-drug use in the production of industrial and other goods. Some estimate that the global market for hemp consists of more than **25,000** products. It can be grown as a fiber, seed, or other dual-purpose crop. Hemp fibers are used in a wide range of products, including fabrics and textiles, yarns and raw or processed spun fibers, paper, carpeting, home furnishings, construction and insulation materials, auto parts, and composites. The interior stalk (hurds) is used in various applications such as animal bedding, raw material inputs, low-quality papers, and composites. Hemp seed and oilcake are used in a range of foods and beverages, and can be an alternative food protein source. Oil from the crushed hemp seed is an ingredient in a range of body-care products and also nutritional supplements. Hemp seed is also used for industrial oils, cosmetics and personal care, and pharmaceuticals, among other composites.

Precise data are not available on the size of the U.S. market for hemp-based products. Current industry estimates report that U.S. retail sales of all hemp-based products may be nearly \$500 million per year. Because there is no commercial industrial hemp production in the United States, **the U.S. market is largely dependent on imports** , both as finished hemp-containing products and as ingredients for use in further processing.

In the early 1990s a sustained resurgence of interest in allowing commercial cultivation of industrial hemp began in the United States. Several states have conducted economic or market studies, and have initiated or passed legislation to expand state-level resources and production. Several states have legalized the cultivation and research of industrial hemp, including Colorado, Hawaii, Kentucky, Maine, Maryland, Montana, North Dakota, Oregon, Vermont, Washington, and West Virginia. However, because federal law still prohibits cultivation, a grower still must get permission from the DEA in order to grow hemp, or face the possibility of federal charges or property confiscation, despite having a state-issued permit.

**U.S. Hemp Imports** The import value of hemp-based products imported and sold in the United States is difficult to estimate accurately. For some traded products, available statistics have only limited breakouts or have been expanded only recently to capture hemp subcategories within the broader trade categories for oilseeds and fibers. Reporting errors are evident in some of the trade data, since reported export data for hemp from Canada do not consistently match reported U.S. import data for the same products (especially for hemp seeds). Given these data limitations, available trade statistics indicate that the value of U.S. imports under categories actually labeled “hemp,” such as hemp seeds and fibers, which are more often used as inputs for use in further manufacturing, was nearly \$11.5 million in 2011. Compared to available data for 2007, the value of imported hemp products for use as inputs and ingredients has more than doubled. However, import volumes for other products such as hemp oil and fabrics are lower (Table 1). Trade data are not available for finished products, such as hemp-based clothing or other products including construction materials, carpets, or hemp-based paper products. The single largest supplier of U.S. imports of raw and processed hemp fiber is

China. Other leading country suppliers include Romania, Hungary, India, and other European countries. The single largest source of U.S. imports of hemp seed and oilcake is Canada. The total value of Canada's exports of hemp seed to the United States has grown significantly in recent years .” Sources from Congressional Research Service

**ITEM 1 — BUSINESS - continued****INTELLECTUAL PROPERTY****Patents**

The following Chinese patents are material to protecting our products and processes. Chinese patents have a term of 20 years.

<u>Patents</u>		
Title	Pat. #	Issued
Granular sodium sulfide production process	ZL03152783 .3	1/18/2006
A medicinal recombinant human lysozyme fusion gene and access to the methods of the drug protein	ZL03100582.9	6/1/2005
Foot and mouth disease vaccine by recombinant Protein gene expression in the establishment of Livestock disease foot and mouth disease virus detection antibody technology	ZL03100579.9	6/1/2005
Access to vaccine used in the production of Foot-and-mouth rape chloroplast transgenic plants	ZL01145166.1	7/27/2005
A cloning vector to produce the treatment of Microbial disease gene vascular endothelial Growth factor—2 drugs naked DNA	ZL03100580.2	11/2/2005
Preparation method of natural carotene	ZL95 1 15709.4	12/3/1999
Punching with inlay-style flat-type water dropper	ZL2004 2 0085127	11/9/2005
Bored potent type inlay bonded with a flat-type water dropper	ZL2004 2 0085126.5	11/9/2005
Bored with inlay-style flat-type water dropper	ZL2004 2 0085125.0	11/9/2005
Punching-type bond with the powerful flat- type water dropper	ZL2004 2 0085128.4	11/9/2005

## ITEM 1 — BUSINESS - *continued*

### Trademarks

We own eight PRC registered trademarks, "YASHENG", "TIAO SHAN", "XIA HE QING", "LV JIA", "XING WEI", "LIN DAN", "JING TAI", "TAI YU", "JIUAN" "ANGEL STAR".

### EMPLOYEES

As of December 31, 2013, we had over 15,000 employees. The majority of employees are based in China, and approximately 9 employees or contract employees are based in our U.S. headquarters. Some of our employees in China are members of a labor union. Among all the employees, approximately 70% employees are farm workers, 11% employees are salespeople, 6% employees are management staff, and 13% are technical staff.

For our employees in China, we are required to contribute a portion of their total salaries to the Chinese government's social insurance funds, including medical insurance, unemployment insurance and job injuries insurance, and a housing assistance fund, in accordance with relevant regulations. We believe that we maintain good relations with our employees as well as offer incentive and training programs to motivate our workers. Our employees are entitled to retirement benefits calculated with reference to their salaries basis upon retirement and their length of service in accordance with a PRC government-managed retirement plan. The PRC government is directly responsible for the payments of the benefits to these retired employees. We are required to make contributions to the government-managed retirement plan based on certain percentages of the employees' monthly salaries.

We provide the following benefits for our employees in China:

- **Employee Welfare Fund.** An amount equal to 14% of payroll is set aside by the Company for standard employee benefits.
- **Open Policy Pension.** We pay to national and community insurance agents an amount equal to 20% of payroll. This insurance continues to cover the employee subsequent to retirement
- **Unemployment Insurance .** We pay to the national employment administration entities an amount equal to 1% of payroll. Any dismissed employee thereby receives a specified amount of Family-support funds for a designated period.
- **Housing Surplus Reserve .** We pay to the national housing fund administrative entities an amount equal to 10% of payroll for deposit into the employees' future housing allowance accounts.

### RESEARCH AND DEVELOPMENT

Our research and development of new products is primarily conducted through Yasheng Academy of Sciences and Yasheng Research Institute of Agricultural Technology, as well as several pilot and testing and training programs within our operations. Yasheng Academy of Sciences and Yasheng Research Institute of Agricultural Technology are quasi-governmental entities that assist in the development of food products promote the development of the region. Yasheng Academy of Sciences and Yasheng Research Institute of Agricultural Technology are funded approximately 80% by the Company and the balance by the Chinese government.

We have also established outside research and development capabilities through cooperation with the International Hops Association, Mexico's wheat and grain development department, as well as other industry associations, to continue growth with high-edge technologies. We also work directly with food processors to develop products that meet the technical and quality demands of food and beverage producers, such as the Company's cooperation with Pepsi and KFC to develop a hybrid potato strains or hops pellets for national brewery Tsingtao Beer.

Through our association with Gansu Yasheng, we have been able to gain strategic advantages through education and research. Yasheng Group Science Academy undertakes intense research into the agriculture industry which is eventually used within our operations. This has allowed us to make great advances in many sectors of our Company. This institute works closely with the National Institutes in coordination for advancement of China's agriculture industry. The Science Academy has five departments: Applied Agriculture Technology, Biology, Trans-Genetic, Chinese Medicine Research, Information Technology, and New Biology Material Research.

## **ITEM 1 — BUSINESS - *continued***

### **QUALITY CONTROL ASSURANCE**

#### **Food Quality, Safety, and Management Controls Quality Control**

Food quality, safety, and management controls are of primary importance to us. We have established quality control and food safety management systems for all stages of our business, including raw material sourcing, producing, packaging, storage and transportation of our products.

Most of our products have been certified "green food" by national standards. Standards of quality and safety of agricultural products include the whole process of agricultural production. They are standards of agricultural products varieties, as well as the environmental standards of manufacturing location, production and processing technical specifications, product classification, safety and hygiene, packing, storage and transit. We have been implementing and practicing "The Food Safety Law of the People's Republic of China," and incorporating international standards and procedures to meet the quality and food safety requirements of many markets.

Our products have strict quality assurance measures. For example, our hops, beer barley, cotton, potatoes and other products go through intense inspection and testing by the "PRC National Quality Inspection Bureau". Our hops and beer barley have to meet strict standards for national beer manufacturers who have special hops and barley quality standards, such as acid content, color and purity. Our potatoes are mainly used for producing starch and mashed potatoes with high demands on the starch content and utilize certain strains designated by our customers, such as KFC, Pepsi, and McDonalds.

#### **Tracking Systems**

We have implemented different levels of tracking for each industry and product. These systems allow our products to be traced back to the agro base and farm plot of origin and can be crossed check by our reports from our production management and technical support team. This allows for quick and efficient identification of the source of the problem and allow for quick correction or measures to ensure safety.

#### **Standardized Cultivation**

Assuring food safety and quality controls is dependent on a system of standardized cultivation that can produce consistent products in size and flavor that are safe to consume. We implement quality control measures to ensure that through the production process from start to finish that our management, technicians and labor force follow these guidelines.

#### **Seeds, Clones, and Sprouts**

Seeds, clones, and sprouts from inception are tested and trialed to ensure consistent traits in growing performance, size, appearance, flavor, and nutrition. At this stage of cultivation the companies technical and production management team intend to be actively involved in assuring the standards are met.

#### **Bio Friendly and Organic Fertilizers**

Fertilizers are very important and we take all measures to utilized organic fertilizers. The company internally produces organic fertilizer materials within the company's sustainable operations concept. The fertilizers used are friendly to the environment and nontoxic to water systems. Our efforts are to reduce the effects of over farmed land on fertile soil and create a medium for enhanced water saving techniques as well as adding additional nutrients. The quality of soil is vital and this approach achieves that goal. This approach also allows for a higher quality product with more nutrients, flavor, and appearance.

#### **Pest and Disease Controls**

The production management and technical management team regularly inspects at each operations potential problems for pest or disease. We have established a specific pest and disease management system to focus on this vital part of a successful harvest and delivery to our clients. We utilize the following techniques to minimize and control any pest or disease issues.

- Physical inspection is done utilizing many methods such as anti-pest nets, light and other traps, sticky boards, and other techniques to minimize where pests and disease can flourish.

## **ITEM 1 — BUSINESS - *continued***

- Biological methods are also implemented utilizing natural predators to the other harmful pest, as well as organism to fight off this ongoing problematic issue. The company also utilizes natural methods such as planting other plants next to the main crops that naturally ward off pests such as, herbs, spices, and hemp.
- We practice responsible crop management that maintains a healthy and sustainable atmosphere for our cultivation operations. This reduces the risk of pest and disease by providing the optimal conditions for our production to be hardy to withstand threats from pest and disease. This is where implementation of crop rotation and utilizing quality seeds, spouts, or transplants come into effect.

### **Bio Friendly Pesticides**

We utilize many methods of to reach an optimal cultivation atmosphere to avoid using pesticides. We only utilize pesticides only when needed as a last choice. We reduce the need for toxic pesticides and in many cases our cultivation practices do not use them at all. We take every measure necessary to avoid products and the environment. We develop other bio friendly pesticides that it utilizes in its own operations and plans to develop retail products for the Agro business pesticides supplies industry. The policy behind the company is to avoid any use of pesticides that would harm the quality of the product, soil, water system, or human work force. The selection of the geographic location of our production bases is also important. Part of our location selection criteria for our operations is climate that is dry and in an area that lessens the possibilities of attacks.

### **Harvesting**

Harvesting becomes one of the most important stages of cultivation. We also employ strict harvesting techniques to ensure product safety and quality. An entire crop can be lost or damaged because of bad harvest management. We approach this stage with care by directing a combination of resources to assure success by creating a checks and balances. The production management team, technicians, and harvest labor force work in close coordination to properly choose the optimal time to begin harvesting and the deadlines for completion. The production managers organize and arrange for timely and secure transportation to the first stage processing area. This process is also documented and recorded with the other stages of cultivation.

### **Processing**

We have a diverse product portfolio requiring many types of processing after production. Many techniques are undertaken and each product has a separate team to oversee this process. Processing facilities are equipped with cleaning, sorting, packaging, and required temperature storage be it dry or cold and the sales, marketing, and production management team work closely to ensure quick delivery. All facilities follow PRC, ISO, and HACCP, processing and packaging standards and are monitored and managed by our production team and related departments.

### **Storage and Distribution**

Our diverse product portfolio requires little storage except for short term storage. We have also established cold and dry storage facilities for products that have those demands. All facilities are regularly inspected and follow PRC and ISO standards for cleanliness, organization, and safe working environment. Quality control measures implemented by the production and technical management team continue all the way until the product is delivered to the customer desired location. These procedures are recorded in reports and filed for upper management

### **Responsible Crop Planning and Rotation**

Each agro-base is established to create a diverse product line as a balanced system within the staple needs of industrial agriculture. One product supports the growth of the other in coordination with other factors.

On an average, each base has four (4) to five (5) product focuses and a balance of supporting products that are rotated to sustain a healthy soil base. Utilizing horticulture grazing can also add value by operating responsibly. By soil testing the management team determines the lands ability to handle the needs of the prospective crop. One of our advantages is vast amounts of land and the ability to rotate and create alternative plots while other soils rehabilitate by growing alfalfa or something similar.

## ITEM 1 — BUSINESS - *continued*

### SEASONALITY

Affected by seasonal agricultural production, our business is also seasonal. Our harvest seasons are from the end of June to mid-November. In the harvest seasons of crops, as a result of competition, the prices of various agricultural products demand a competitive low price, we will store our products, such as fruits, until the second year's Spring Festival waiting for the supply and demand to be appropriately adjusted so that prices of agricultural products can, in turn, be adjusted to an ideal price. The seasonal nature impact on our farming products are minimized by these practices.

As a result of seasonal sales price fluctuations, we have historically realized a greater portion of our net sales and of our gross profit during certain quarters of the year. The sales price of our agricultural products item fluctuates throughout the year due to the supply of and demand for that particular item, as well as the pricing and availability of other agricultural items, many of which are seasonal in nature.

### REGULATORY ISSUES AND POLICIES

Since substantially all of operations are based in China, we are regulated by all levels of governments of the People's Republic of China, including central government, provincial government, and local governments. We are generally subject to state, local laws and regulations relating to the business, environment, health, and safety. Specifically, we are subject to the following:

- The Company Law of the People's Republic of China
- Labor Law of the People's Republic of China
- Insurance Law of the People's Republic of China
- The Food Safety Law of the People's Republic of China
- Patent Law of the People's Republic of China
- Law of the People's Republic of China on the Prevention and Control of Water Pollution
- Law of the People's Republic of China on Scientific and Technological Progress
- Energy Conservation Law of the People's Republic of China

#### *Regulations Relating to Business*

Our operations are conducted through our subsidiaries which are subject to the laws of People's Republic of China. The practical effect of the People's Republic of China's legal system on our business operations in China can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the Foreign Invested Enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate articles and contracts to Foreign Invested Enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are not qualitatively different from the general corporation laws of the several states. Similarly, the accounting laws and regulations of the People's Republic of China mandate accounting practices which are not consistent with U.S., Generally Accepted Accounting Principles. China's accounting laws require that an annual "statutory audit" be performed in accordance with People's Republic of China's accounting standards and that the books of account of Foreign Invested Enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People's Republic of China Wholly Foreign-Owned Enterprise Law requires a Wholly Foreign-Owned Enterprise to submit certain periodic fiscal reports and statements to designate financial and tax authorities at the risk of business license revocation. Second, while the enforcement of substantive rights may appear less clear than United States procedures, Foreign Invested Enterprises and Wholly Foreign-Owned Enterprises are Chinese registered companies, which enjoy the same status as other Chinese registered companies in business-to business dispute resolution. Generally, the Articles of Association provide that all business disputes pertaining to Foreign Invested Enterprises are to be resolved by the Arbitration Institute of the Stockholm Chamber of Commerce in Stockholm, Sweden, applying Chinese substantive law. Any award rendered by this arbitration tribunal is, by the express terms of the respective Articles of Association, enforceable in accordance with the "United Nations' Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958)." Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of Foreign Invested Enterprises.

#### *Regulations Relating to Crop Seed and Agriculture*

The crop seed business is a highly regulated industry in the PRC. In July 2000, the Seed Law was enacted to foster the use of seed resources; to control the selection, production and use of seeds and to regulate related business operations; to protect the legal rights of producers, business operators and users of seeds; to promote seed quality; to drive the industrialization processes of seeds and to accelerate the development of the planting and forestry industries.



## **ITEM 1 — BUSINESS - *continued***

Under the Seed Law, major crop seeds and tree varieties are subject to examination and approval as a pre-condition of their popularization. An applicant may apply directly for examination and approval at either the national or provincial level. Committees composed of professional experts have been established separately by the State Council's agriculture and forestry administrative departments and the provincial governments for the examination and approval of crop and tree varieties. Major crop seed varieties that are verified and approved by the State Council's committee and the National Crop Variety Examination and Approval Committee may be marketed and distributed nationwide. Varieties that received provincial approval are only permitted to be marketed and distributed within the approved province.

For seed production, a permission-based system is currently in practice pursuant to the Administrative Regulation on Permission of Production and Operation of Crop Seeds, which was issued on February 26, 2001 and revised on July 1, 2004. A company engaged in the production of seeds must obtain a production license, which is issued at either the provincial or the local level, entitling the licensee to engage in seed production in the permitted area. The level of issuing authority required for a production license varies based on the types of seeds to be produced. The production license also specifies the types of seeds the license holder may produce, the geographic region where seeds can be produced and the term of the production license. For seed distribution, a company must obtain a distribution license in order to distribute seeds in permitted areas. Generally, a distribution license may be issued at the county level or above. A seed company must obtain a distribution license from the provincial government to distribute major crop seeds in that province, and a distribution license from the national government for national distribution.

### ***Supervision of Agricultural Products Quality and Safety***

On March 10, 2005, the Ministry of Agriculture issued the Administrative Measures for the Supervision and Spot Check of Agricultural Seed Quality, which became effective on May 1, 2005, and which permit the government's administrations of agriculture at the county level or above to organize relevant seed administration and seed quality inspection institutions to sample and inspect agricultural seeds that are produced and sold. A seed production and operation company that does not meet inspection standards must recall any seeds that have been sold. Such companies may not conduct sales until they meet inspection standards. A legal representative of the seed company must circulate information on the inspection to all employees, and the company must determine why the seeds failed to meet inspection standards and implement corrective measures. Such measures include improving quality control processes, submission of rectification reports and submitting to subsequent examinations by the administration of agriculture. Our seeds have not been recalled in any inspections by the government authorities thus far.

### ***Regulations Relating to Land***

There is no private ownership of land in China. All land in the PRC is either state-owned or collectively owned, depending on the location of the land. All land in the urban areas of a city or town is state-owned, and all land in the rural areas of a city or town and all rural land are, unless otherwise specified by law, collectively owned. The state has the right to reclaim land in accordance with law if required for the benefit of the public. Although all land in the PRC is owned by the state or by collectives, private individuals and businesses and other organizations are permitted to hold, lease and develop land for which they are granted land use rights. Land use rights can be obtained from the government for a period up to 70 years, and are typically renewable. Land use rights can be transferred upon approval by the land administrative authorities of the Chinese State Land Administration Bureau upon payment of the required land transfer fee. We have received the necessary land use right certificates for our operating facilities as further described in Item 2 –Properties.

### ***Regulations Relating to Foreign Currency***

In addition, we are also subject to PRC's foreign currency regulations. The PRC government has control over Renminbi reserves through, among other things, direct regulation of the conversion of Renminbi into other foreign currencies. Although foreign currencies which are required for current account transactions can be bought freely at authorized PRC banks, the proper procedural requirements prescribed by PRC law must be met. At the same time, PRC companies are also required to sell their foreign exchange earnings to authorized PRC banks and the purchase of foreign currencies for capital account transactions still requires prior approval of the PRC government.

### ***Costs and Effects of Compliance with Environmental Laws and Regulations***

We do not face any significant government regulation in connection with the production of our products. We do not require any special government permits to produce our products other than those permits that are required of all corporations in China.

Although we utilize many methods to reach an optimal cultivation atmosphere to avoid using pesticides, the use and disposal of some chemicals and pesticides are inherent aspects of our production operations. These activities and other aspects of production are subject to various environmental laws and regulations in the People's Republic of China. We are not a party to any dispute or legal proceeding relating to environmental matters where we believe that the risk associated with the dispute or legal proceeding would be material. We regularly monitor and review our operations, procedures, and policies for compliance with these laws and regulations. We have made substantial capital investments in our facilities to ensure compliance with environmental and regulatory laws. We believe that our operations are in substantial compliance with the laws and regulations and that there are no violations that would have a material effect on us. Therefore, we do not anticipate that there will be any substantial costs associated with the compliance of environmental laws and regulations.



## ITEM 1A — RISK FACTORS

### RISK FACTORS

*Investment in our common stock involves risk. You should carefully consider the risks we describe below before deciding to invest. The market price of our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. These factors may also cause actual results to differ materially from the results contemplated by the forward looking statements in Management's Discussion and Analysis. You should pay particular attention to the fact that we are a holding company with substantial operations in China and are subject to legal and regulatory environments that in many respects differ from that of the United States. Agricultural products account for a large portion of the Company's revenues. Agriculture operations are subject to variations in supply and demand, weather, disease, input costs and product liability. Our business, financial condition or results of operations could be affected materially and adversely by any of the risks discussed below and any others not foreseen. This discussion contains forward-looking statements. The list or risks below is not intended to be all inclusive. A complete listing of risks is beyond the scope of this document. However, investors, including our shareholders, should carefully consider, among other factors, the following risk factors set forth below.*

#### RISKS RELATED TO OUR BUSINESS

***Our agricultural assets are concentrated in one province in China and crop disease, severe weather, natural disasters and other conditions affecting the environment, including the effects of climate change, could result in substantial losses and weaken our financial condition.***

Our agricultural operations are concentrated in Gansu Province. This area is subject to occasional periods of drought. Crops require water in different quantities at different times during the growth cycle. The limited water resource at any given point can adversely impact production. Although we have deployed drip irrigation systems for its crops, the uncontrollable weather conditions may affect our agricultural productions.

Crop disease, severe weather conditions, such as floods, droughts, windstorms and hurricanes, and natural disasters, may adversely affect our supply of one or more product, reduce our sales volumes, increase our unit production costs or prevent or impair our ability to ship products as planned. Since a significant portion of our costs are fixed and contracted in advance of each operating year, volume declines due to production interruptions or other factors could result in increases in unit production costs, which could result in substantial losses and weaken our financial condition. We may experience crop disease, insect infestation, severe weather and other adverse environmental conditions from time to time. Severe weather conditions may occur with higher frequency or may be less predictable in the future due to the effects of climate change.

An occurrence of such an event might result in material disruptions to our operations, to the operations of our customers or suppliers, resulting in a decline in the agriculture industry. There can be no assurance that our facilities or products will not be affected by any such occurrence in the future, which occurrence may lead to adverse conditions to our operations and financial results.

***Prices of agricultural products are subject to supply and demand, a market condition of which is not predictable.***

Because our agricultural products are commodities, we are not able to predict with certainty what price it will receive for its products. Additionally, the growth cycle of such products in many instances dictates when such products must be marketed to achieve the maximum profitability. Excessive supplies tend to cause severe price competition and lower prices throughout the industry affected. Conversely, shortages may drive the prices higher. Shortages often result from adverse growing conditions which can reduce the availability of the agricultural products affected. Since multiple variables can affect supply and demand, we cannot accurately predict or control from year to year what prices, either favorable or unfavorable, it will receive from the market.

In addition, general public perceptions regarding the quality, safety or health risks associated with particular food products could reduce demand and prices for some of our products. To the extent that consumer preferences evolve away from products that we produce for health or other reasons, and we are unable to modify our products or to develop products that satisfy new consumer preferences, there will be a decreased demand for our products. However, even if market prices are unfavorable, some of our agricultural products which are ready to be, or have been, harvested must be brought to market promptly. A decrease in the selling price received for our products due to the factors described above could have a material adverse effect on our business, results of operations and financial condition.

**ITEM 1A — RISK FACTORS - continued**

***We could realize losses and suffer liquidity problems due to declines in sales prices for our agriculture products.***

Sales prices for agricultural products are difficult to predict. It is possible that sales prices for our products will decline in the future, and sales prices for other agricultural products may also decline. In recent years, there has been increasing consolidation among food retailers, wholesalers and distributors. A significant portion of our costs is fixed, so that fluctuations in the sales prices have an immediate impact on our profitability. Our profitability is also affected by our production costs, which may increase due to factors beyond our control.

***We do not have long term commitments from our suppliers, and increases in commodity or raw product costs could adversely affect our operating results.***

We may experience shortages of supplies and inventory because we do not have long-term agreements with our suppliers. Many factors may affect the cost and supply of our products, including external conditions, commodity market fluctuations, currency fluctuations, changes in governmental laws and regulations, agricultural programs, severe and prolonged weather conditions and natural disasters. Increased costs for such commodity or raw product costs may adversely affect our operating results in the future.

***Due to fluctuations in the supply of and demand for our products, our results of operations are subject to seasonal variability.***

Our earnings may be affected by seasonal factors, which may cause the sale price of our products to fluctuate throughout the year, including:

- the seasonality of our supplies and consumer demand;
- the ability to process products during critical harvest periods; and
- the timing and effects of ripening and perishability.

***We are subject to the risk of product contamination and product liability claims.***

The sales of our products may involve the risk of injury to consumers. Such injuries may result from tampering by unauthorized personnel, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, or residues introduced during the growing, packing, storage, handling or transportation phases. While we are subject to governmental inspection and regulations and believe our facilities comply in all material respects with all applicable laws and regulations, including internal product safety policies, we cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our brand image. We do not maintain product liability insurance.

***We may not be successful in the implementation of our new technologies and new products, and our new products may be not widely accepted.***

Our new technologies such as our drip irrigation system for precision agriculture or the introduction, testing and promotion of new agricultural varieties, must be able to adapt to local conditions. On the one hand, there exists the failure risk due to not being suitable for the local environment and market conditions; on the other hand, there are risks of loss of competitive advantages due to the rising of producing similar products enterprises and other enterprises that follow to produce the similar products.

***We are a holding company whose subsidiaries are given certain degree of independency and our failure to integrate our subsidiaries may adversely affect our financial condition.***

According to the specific characteristics of agricultural production in China, we have given our subsidiary companies and their farms a certain degree of independency in decision-making. On one hand, this independency increases the sense of ownership at all levels, on the other hand it has also increased the difficulty of the integration of operation and management, which has resulted in increased difficulty of management integration. In the event we are not able to successfully manage our subsidiaries this will result in operating difficulties and have a negative impact on our business.

## **ITEM 1A — RISK FACTORS - continued**

### ***Our success depends on the same level services of our senior executives, the loss of which could disrupt our operations.***

Our ability to maintain our competitive position is dependent to a large degree on the services of our senior management team. We may not be able to retain our existing senior management personnel or attract additional qualified senior management personnel. We have some employment agreements with our senior executives and loss of services of our senior executive could disrupt our operations.

### ***Our acquisition and expansion strategy may not be successful.***

Our growth strategy is based in part on growth through acquisitions or expansion, which poses a number of risks. We have evaluated, and expect to continue to evaluate, a wide array of potential strategic transactions and relationships with third parties. From time to time, we may engage in discussions regarding potential acquisitions or joint ventures. We may not be successful in identifying appropriate acquisition candidates, consummating acquisitions on satisfactory terms or integrating any newly acquired or expanded business with our current operations. We may issue common stock, incur long-term or short-term indebtedness, spend cash or use a combination of these for all or part of the consideration paid in future acquisitions or to expand our operations. The execution of our acquisition and expansion strategy may entail repositioning or similar actions that in turn require us to record impairments, restructuring and other charges. Any such charges would reduce our earnings. An unsuccessful material strategic transaction or relationship could result in operating difficulties and may have a negative financial impact on our business.

### ***We cannot assure you that our acquisition growth strategy will be successful, resulting in our failure to meet growth and revenue expectations.***

In addition to our internal growth strategy, we have also explored the possibility of growing through strategic acquisitions. We intend to pursue opportunities to acquire businesses in the People's Republic of China that are complementary or related in product lines and business structure to us. We may not be able to locate suitable acquisition candidates at prices that we consider appropriate or to finance acquisitions on terms that are satisfactory to us. If we do identify an appropriate acquisition candidate, we may not be able to negotiate successfully the terms of an acquisition, or, if the acquisition occurs, integrate the acquired business into our existing business. Acquisitions of businesses or other material operations may require debt financing or additional equity financing, resulting in leverage or dilution of ownership. Integration of acquired business operations could disrupt our business by diverting management away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures.

We also may not be able to maintain key employees or customers of an acquired business or realize cost efficiencies or synergies or other benefits we anticipated when selecting our acquisition candidates. In addition, we may need to record write-downs from future impairments of intangible assets, which could reduce our future reported earnings. At times, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition. In addition to the above, acquisitions in the People's Republic of China, including state owned businesses, will be required to comply with the laws of the People's Republic of China, to the extent applicable. There can be no assurance that any given proposed acquisition will be able to comply with People's Republic of China requirements, rules and/or regulations, or that we will successfully obtain governmental approvals that are necessary to consummate such acquisitions, to the extent required. If our acquisition strategy is unsuccessful, we will not grow our operations and revenues at the rate that we anticipate.

We have no business experience in mining ventures and carbon credit trading and generation and we may lose our entire investments in those new business ventures that we plan to undertake in 2013.

### ***We may have difficulty managing our growth.***

We have been experiencing significant growth in the scope of our operations and the number of our employees. This growth has placed significant demands on our management as well as our financial and operational resources. It has and will require that we continue to develop and improve our operational, financial and other internal controls. The main challenge associated with our growth has been, and we believe will continue to be, our ability to recruit and integrate skilled sales, manufacturing and management personnel. Our inability to scale our business appropriately or otherwise adapt to growth would cause our business, financial condition and results of operations to suffer.

### ***Our business may be adversely affected by conditions in the financial markets and economic conditions generally.***

These conditions make it difficult for us to accurately forecast and plan future business requirements, and could cause us to slow or reduce our business activities. Furthermore, during challenging economic times, we may face issues gaining timely access to financing or capital infusion, which could result in an impairment of our ability to continue our business activities. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide, in China, or in our industries. These and other economic factors could have a material adverse effect on our financial condition and operating results. In addition, further negative market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, lessened demand for our products and services, and increased default rates among our customers. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in our industry.



## ITEM 1A — RISK FACTORS - *continued*

### ***Agriculture risks .***

As an agriculture-stock company, which benefits from State preferential policies for agriculture and food, if the current preferential policies enjoyed are modified or cancelled, our business and profitability will be adversely affected. In recent years, as raw materials prices rise, international, national and private capitals are moving into the agricultural processing industry on a large-scale to compete for resources, the purchase price of rice and other crops have risen, which has resulted in rising costs of agricultural products processing enterprises and decreased profits.

### ***Macroeconomic policy.***

Our development may be subject to multi-objective policies such as national fiscal, monetary, investment and price policies etc.,

### ***Natural Disasters.***

Agricultural production is vulnerable to the formidable natural conditions such as wind damage, cold snap and drought, etc., with crop yields prone to volatility.

### ***Market competition and rising costs risks.***

The agricultural market competition has become more intense, and the prices of agricultural production materials such as machinery, fertilizers, pesticides etc. which are necessary for agricultural production are increasing rapidly, which has caused a certain pressure to ours. We may not succeed in addressing these risks by improvement to agricultural product varieties and adjustments to improve the yield and quality.

### ***Financial risks .***

Our future investment scale of the reconstruction or expansion projects is very large, which will posing a challenge to our financial management ability. We may be successful in taking an active interest in and study the national financial policies and industry guidance, actively carrying out a variety of financing activities, while taking efforts on strengthening internal management and improving the enterprises' profitability.

### ***The funds required for the future development strategies and funding sources may not be raised.***

As our processing enterprises purchase and store of a large number of raw materials every year, the demand for funds is large. We may not raise the funds required for the future development strategies in the capital markets using the combination of a variety of financial methods such as issuing medium-term notes, financial products and normal loan.

### **Risks Related to Assets and Operations in the People's Republic of China.**

***Substantially all of our assets and our operations are located outside of the United States, a significant number of sales are generated outside of the United States subjecting us to risks associated with doing business in the People's Republic of China***

Our operations in China subject us to the laws and regulations of the People's Republic of China. In addition, we are subject to risks inherent in international business activities, including:

- changes in overseas economic conditions,
- fluctuations in currency exchange rates,
- potentially weaker intellectual property protections,
- changing and conflicting local laws and other regulatory requirements,
- trade agreements ,

**ITEM 1A — RISK FACTORS - continued**

- political and economic instability,
- war, acts of terrorism or other hostilities,
- potentially adverse tax consequences, or
- Difficulties in staffing and managing foreign operations.

***Limitations on Chinese economic market reforms may discourage foreign investment in Chinese businesses.***

The value of investments in Chinese businesses could be adversely affected by political, economic and social uncertainties in China. The economic reforms in China in recent years are regarded by China's central government as a way to introduce economic market forces into China. Given the overriding desire of the central government leadership to maintain stability in China amid rapid social and economic changes in the country, the economic market reforms of recent years could be slowed, or even reversed.

***Any material change in policy by the Chinese government could adversely affect investments in our business operations.***

As a developing nation, China's economy is more volatile than that of developed Western industrial economies. It differs significantly from that of the U.S. or a Western European country in such respects as structure, level of development, capital reinvestment, legal recourse, resource allocation and self-sufficiency. Only in recent years has the Chinese economy moved from what had been a command economy through the 1970s to one that during the 1990s encouraged substantial private economic activity. In 1993, the Constitution of China was amended to reinforce such economic reforms. The trends of the 1990s indicate that future policies of the PRC government will emphasize greater utilization of market forces. For example, on March 14, 2004, an amendment to the PRC Constitution was ratified to protect private property, although private business will officially remain subordinate to state-owned companies, which are the mainstay of the PRC economy.

Although the PRC government owns the majority of productive assets in China, during the past several years the government has implemented economic reform measures that emphasize decentralization and encourage private economic activity. Because these economic reform measures may be inconsistent or ineffectual, we are unable to assure that:

- We will be able to capitalize on economic reforms;
- The PRC government will continue its pursuit of economic reform policies;
- The economic policies, even if pursued, will be successful;
- Economic policies will not be significantly altered from time to time; and
- Business operations in China will not become subject to the risk of nationalization.

Since 1979, the PRC government has reformed its economic systems.

Because many reforms are unprecedented or experimental, they are expected to be refined and improved. Other political, economic and social factors, such as political changes, changes in the rates of economic growth, unemployment or inflation, or in the disparities in per capita wealth between regions within China, could lead to further readjustment of the reform measures. This refining and readjustment process may negatively affect our operations.

Over the last few years, China's economy has registered a high growth rate. Recently, there have been indications that rates of inflation have increased. In response, the PRC government recently has taken measures to curb this excessively expansive economy. These measures have included revaluations of the Chinese currency, the Renminbi (RMB), restrictions on the availability of domestic credit, and limited recentralization of the approval process for purchases of some foreign products. These austerity measures alone may not succeed in slowing down the economy's excessive expansion or control inflation, and may result in severe dislocations in the PRC economy. The PRC government may adopt additional measures to further combat inflation, including the establishment of freezes or restraints on certain projects of our markets.



## **ITEM 1A — RISK FACTORS - *continued***

Actions by the central government of China could have a significant adverse effect on economic conditions in the country as a whole and on the economic prospects for our PRC operations. Changes in policy could result in imposition of restrictions on currency conversion, imports or the source of supplies, as well as new laws affecting joint ventures and foreign-owned enterprises doing business in China. Although China has been pursuing economic reforms, events such as a change in leadership or social disruptions that may occur upon the proposed privatization of certain state-owned industries could significantly affect the government's ability to continue with its reform. Accordingly, there can be no assurance that the reforms to China's economic system will continue or that we will not be adversely affected by changes in China's political, economic, and social conditions and by changes in policies of the PRC government, such as changes in laws and regulations, measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and remittance abroad, and reduction in tariff protection and other import restrictions.

To date, reforms to China's economic system have not adversely impacted our operations and are not expected to adversely impact operations in the foreseeable future. However, we cannot assure you that, under some circumstances, the government's pursuit of economic reforms will not be restrained or curtailed.

### ***Uncertainties with respect to the People of Republic of China legal system could limit the legal protections available to you and us.***

We conduct substantially all of our business through our operating subsidiaries in the People's Republic of China. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new People's Republic of China laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the People's Republic of China legal system continues to rapidly evolve, the interpretations 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 you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

As a result, it could be difficult for investors to affect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.

### ***Chinese legal and judicial system may negatively impact foreign investors.***

In 1982, the National People's Congress amended the Constitution of China to authorize foreign investment and guarantee the "lawful rights and interests" of foreign investors in China. However, China's system of laws is not yet comprehensive. The legal and judicial systems in China are still under development, and enforcement of existing laws is inconsistent. Many judges in China lack the depth of legal training and experience that would be expected of a judge in a more developed country. Because the Chinese judiciary is relatively inexperienced in enforcing the laws that exist, anticipation of judicial decision-making is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. China's legal system is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of PRC laws may shift to reflect domestic political changes. The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. However, the trend of legislation over the last 20 years has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in PRC enterprises. We cannot assure that a change in leadership, social or political disruption, or unforeseen circumstances affecting China's political, economic or social life will not affect the Chinese government's ability to continue to support and pursue these reforms. Such a shift could have a material adverse effect on our business and prospects.

### ***Restrictions under People's Republic of China law on our People's Republic of China subsidiaries ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses.***

Substantially all of our revenues are earned by our People's Republic of China subsidiaries. However, People's Republic of China regulations restricts the ability of our People's Republic of China subsidiaries to make dividends and other payments to their offshore parent company. People's Republic of China legal restrictions permit payments of dividend by our People's Republic of China subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with People's Republic of China accounting standards and regulations. People's Republic of China laws and regulations allow each of our subsidiaries to allocate at least 10% of our annual after-tax profits determined in accordance with People's Republic of China GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of our registered capital. Payment to the statutory general reserve fund is at our discretion. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends.

## **ITEM 1A — RISK FACTORS - *continued***

Any limitations on the ability of our People's Republic of China subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

### ***Our results of operations may be adversely impacted by currency fluctuations.***

Substantially of our operations are in China. A significant portion of our revenue is in currencies other than United States dollars, primarily in Remebi (RMB). Because our financial statements are reported in United States dollars, fluctuations in RMB against the United States dollar may cause us to recognize foreign currency translation gains and losses, which may be material to our operations and impact our reported financial condition and results of operations.

### ***Our Accounting Personnel have limited experience with US GAAP***

Our accounting personnel have been predominately educated and trained in PRC GAAP which is different from International GAAP and US GAAP. This lack of experience and training could cause possible confusion in the application of US GAAP, weaknesses in internal control, and cause delays in the financial statement preparation process.

### ***Lack of PCAOB Auditor Oversight Risk and Concerns***

As a public company, we are required by the Sarbanes-Oxley law to be audited by a PCAOB registered auditor. Our auditor is based in China and has registered with the PCAOB. One of the requirements of this registration is to be inspected on a periodic basis by the PCAOB. These inspections include reviewing of the actual audit work papers prepared by our auditors as well as a review of the quality control procedures of our auditor. The SEC and the PCAOB are endeavoring to arrive at a mutual understanding as to auditor inspections with the Chinese Government. The Chinese Government up until now has not allowed the PCAOB inspectors to review the work papers of our auditor.

Regular inspection by the PCAOB of public company auditors was one of the cornerstones of the Sarbanes-Oxley law. The lack of inspections is contrary to US law and deprives the current and future shareholders of any and all benefits that would be derived by this important oversight of auditors. This lack of oversight and the added expense associated with the inspections also puts any US based audit firm in a distinct disadvantage when competing with a Chinese based audit firm for work in China.

## **Risks Relating to our Common Stock**

### ***There is a limited public trading market for our common stock.***

Our Common Stock presently trades on the Pink OTC Markets, Inc. ("Pink Sheets") under the symbol "HERB." We cannot assure you, however, that such market will continue or that you will be able to liquidate your shares at the price you paid or otherwise. We also cannot assure you that any other market will be established in the future. The price of our common stock may be highly volatile and your liquidity may be adversely affected in the future.

### ***Our common stock is thinly traded, so 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 your shares.***

The price of our common stock may be affected by a limited trading volume and may fluctuate significantly. There has been a limited public market for our common stock and we cannot assure you that an active trading market for our stock will develop or if developed, will be maintained. The absence of an active trading market may adversely affect our stockholders' ability to sell our common stock in short time periods, or possibly at all. In addition, we cannot assure you that you will be able to sell shares of common stock that you have purchased without incurring a loss. The market price of our common stock may not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value, and may not be indicative of the market price for the common stock in the future. In addition, the market price for our common stock may be volatile depending on a number of factors, including business performance, industry dynamics, and news announcements or changes in general economic conditions.

### ***We are controlled by our principal shareholders.***

As of December 31, 2013, approximately 78% of our shares of outstanding common stock were held by Gansu Yasheng. We expect our principal shareholder to continue to use its interest in our common stock to direct our management, to significantly influence the election of our entire board of directors, to determine the method and timing of the payment of dividends also limited by debt covenants, to determine substantially all other matters requiring shareholder approval and to control us. The concentration of our beneficial ownership may have the effect of delaying, deterring or preventing a change in control, may discourage bids for the common stock at a premium over their market price and may otherwise adversely affect the market price of the common stock. In addition, Gansu Yasheng may affect certain corporate transactions such as a merger without seeking the other shareholders approval.



## ITEM 1A — RISK FACTORS - *continued*

***Our stock may be governed by the “penny stock rules,” which impose additional requirements on broker-dealers who make transactions in our stock.***

SEC rules require a broker-dealer to provide certain information to purchasers of securities traded at less than \$5.00, which are not traded on a national securities exchange. Since our common stock is not currently traded on an exchange, our common stock is considered a “penny stock,” and trading in our common stock is subject to the requirements of Rules 15c-1 through 15c-9 under the Securities Exchange Act of 1934 (the “Penny Stock Rules”). The Penny Stock Rules require a broker-dealer to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also give bid and offer quotations and broker and salesperson compensation information to the prospective investor orally or in writing before or with the confirmation of the transaction. In addition, the Penny Stock Rules require a broker-dealer to make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction before a transaction in a penny stock. These requirements may severely limit the liquidity of securities in the secondary market because few broker-dealers may be likely to undertake these compliance activities. Therefore, the disclosure requirements under the Penny Stock Rules may have the effect of reducing trading activity in our common stock, which may make it more difficult for investors to sell their shares

***We have not and do not anticipate paying any dividends on our common stock; because of this the valuation of our securities could be adversely affected in the market.***

We have paid no dividends on our common stock to date and it is not anticipated that any dividends will be paid to holders of our common stock in the foreseeable future. While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that any earnings will be retained to finance our future expansion and for the implementation of our business plan. As an investor or stockholder, you should take note of the fact that a lack of a dividend can further affect the market value of our stock, and could significantly affect the value of any investment in our Company.

***As a U.S. public company we are subject to the U.S. securities laws, including Sarbanes-Oxley Act of 2002, and we have and may continue to incur significant costs and utilize our resources to comply with such laws.***

As a U.S. public company we have incurred a substantial amount of accounting, legal, and additional expenses to comply with the reporting requirements under the U.S. securities laws. Our management and the former owners of the businesses we acquired were generally unfamiliar with the requirements of the United States securities laws. A failure to adequately respond to applicable securities laws could lead to investigations by the SEC and other regulatory authorities that could be costly divert management's attention and disrupt our business. Our current management and other personnel are devoting additional time to these new compliance requirements. These regulations have increased our legal and financial compliance costs and have made administrative cost more expensive. We will continue to incur significant costs as a result of operating as a public company, and our management will be required to devote substantial time to meet these compliance requirements.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluations and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes Oxley Act. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Compliance with Section 404 may require that we incur substantial accounting expenses and expend significant management efforts. If we are not able to comply with the requirements of Section 404 in a timely manner, or if our accountants later identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other applicable regulatory authorities.

***We may issue shares of our capital stock or debt securities to complete a transaction, which would reduce the equity interest of our stockholders or subject our company to risks upon default.***

We may issue our securities to acquire companies or assets. If we issue additional shares of our common stock, the equity interest of our existing stockholders may be reduced significantly, and the market price of our common stock may decrease. If we issue debt securities as part of a transaction and we are unable to generate sufficient operating revenues to pay the principal amount and accrued interest on that debt, we may be forced to sell all or a significant portion of our assets to satisfy our debt service obligations, unless we are able to refinance or negotiate an extension of our payment obligation. Even if we are able to meet our debt service obligations as they become due, the holders of that debt may accelerate payment if we fail to comply with, and/or are unable to obtain waivers of, covenants that require us to maintain certain financial ratios or reserves or satisfy certain other financial restrictions. In addition, financial and other covenants in the agreements we may enter into to secure debt financing may restrict our ability to obtain additional financing and our flexibility in operating our business.

## **ITEM 1B — UNRESOLVED STAFF COMMENTS**

None

## **ITEM 2 — PROPERTIES**

The following is a description of our significant properties.

### ***United States***

Our principal executive office in California is located at 850 Veterans Blvd., #228, Redwood City, California 94063. We lease an office space of 3,000 square feet on an annual basis at a cost of \$6,500 per month.

We own 81 acres in Southern California at U.S. Highway 395 and California 58 in Kramer Junction, California.

We have staked 48 placer mining claims covering 960 acres in La Paz County, Arizona near the Plomosa Mountain lead and placer claims the company optioned in 2011. The Plomosa Mining District is characterized by linear mountain ranges separated by alluvium-filled basins.

### ***People's Republic of China***

There is no private ownership of land in China. All land ownership is held by the government of the People's Republic of China, its agencies and collectives. Land use rights can be obtained from the government for a period up to 70 years, and are typically renewable. Land use rights can be transferred upon approval by the land administrative authorities of the Chinese State Land Administration Bureau upon payment of the required land transfer fee.

We own 2,600 square meters of office building in No. 609, East Binghe Road, Lanzhou City, Gansu Province, 3,670 square meters of commercial building in Jiuquan City, Gansu Province.

Our eight operating subsidiaries have over 300,000 acres of land, with land use rights for 70 years. This includes 65,000 acres are being used for cultivation of crops and has been in use for 35 years. The land use rights are renewable at the end of the each period. This land is spread out from one end of Gansu Province to the other within the eight companies.

Gansu Tiaoshan Group Co., Ltd., as subsidiary, owns 1,342 square meters of office building in Yitiaoshan Town, Jingtai County, Gansu Province, 87,342 square meters of area for production and processing, 60,000 acres of land includes such as distillery, woolen jumper factory, cement factory, preserved fruit factory, honey factory, chicken farm, orchard, plantation and ranch, and cultivates.

Gansu Xiaheqing Industrial Group Co., Ltd., as subsidiary, owns 3,670 square meters of large department store in Jiuquan City, Gansu Province, 70,000 acres of land includes malt processing factory and hops processing factory, and cultivates.

## **ITEM 3 — LEGAL PROCEEDINGS**

During the normal course of business, we or our subsidiaries may be engaged in legal proceedings. The Company does not believe that such legal proceedings, if any, will have a material adverse effect financially or on its operations.

## **ITEM 4 — REMOVED AND RESERVED**

## PART II

### ITEM 5 — MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Our common stock is quoted for trading on the OTCQB (OTC Markets Inc.) under the symbol “HERB”. The following table shows the range of the high and low bid for our common stock as reported by OTCQB for each quarterly period within the two most recent fiscal years is set forth below:

	Bid Prices	
	High	Low
2013		
Quarter ended December 31, 2013	\$ 0.78	\$ 0.58
Quarter ended September 30, 2013	\$ 0.78	\$ 0.46
Quarter ended June 30, 2013	\$ 0.60	\$ 0.41
Quarter ended March 31, 2013	\$ 0.53	\$ 0.33
2012		
Quarter ended December 31, 2012	\$ 0.70	\$ 0.33
Quarter ended September 30, 2012	\$ 0.58	\$ 0.35
Quarter ended June 30, 2012	\$ 0.70	\$ 0.40
Quarter ended March 31, 2012	\$ 0.90	\$ 0.50

Bid quotations represent interdealer prices without adjustment for retail markup, markdown and/or commissions and may not necessarily represent actual transactions.

#### Stockholders

As of December 31, 2013, the number of stockholders of record was approximately 345, not including beneficial owners whose shares are held by banks, brokers and other nominees.

#### Dividends

We have not paid any dividends on our common stock, and we do not anticipate paying any dividends in the foreseeable future. Our Board of Directors intends to follow a policy of retaining earnings, if any, to finance our growth. The declaration and payment of dividends in the future will be determined by our Board of Directors in light of conditions then existing, including our earnings, financial condition, capital requirements and other factors.

#### Securities Authorized for Issuance under Equity Compensation Plans

Our board of directors has approved a 2006 Equity Incentive Plan (the “Equity Incentive Plan”). The purpose of the Equity Incentive Plan is to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons in our development and financial success. Since the Equity Incentive Plan was never formally adopted by the shareholders, the Equity Incentive Plan expired on its terms. No awards were ever issued under the Equity Incentive Plan. We plan to prepare a new equity incentive plan for future approval.

#### Recent Sales of Unregistered Securities

None.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

## ITEM 6 — SELECTED FINANCIAL DATA

Not Applicable

## ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following management's discussion and analysis should be read in conjunction with our financial statements and the notes thereto and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion contains certain forward-looking information. See "Special Note Regarding Forward Looking Statements" above for certain information concerning those forward looking statements. Our financial statements are prepared in U.S. dollars and in accordance with U.S. GAAP.*

### Overview

Yasheng Group (HERB) is a holding company that operates eight subsidiaries comprised of twenty operating entities making up a group of leading producers of premium specialty agriculture products in China.

We specialize in developing, processing, marketing, and distributing a variety of food products processed primarily from premium specialty agriculture products grown in Northwest China from six primary agricultural types: Field Crops, Vegetables, Fruits, Special Crops, Seeds and Poultry. We have been producing our premium specialty Agriculture products for over 30 years and with some of our entities for over 40 years, to become the largest most well established agriculture company in Northwest China.

Our best selling products are derived from years of agriculture experience and over the years these products have become widely distributed to high end markets all over China, including Hong Kong, with growing demand internationally. We have established a significant presence in supplying the demand for food products in China with long term contracts and cooperative relationships through our high quality standards. We also have established strategic distribution and processing partners as well as our own distribution and processing capabilities.

Our product offerings are comprised of over 30 agriculture products within six primary product types. Some of our major products include Field Crops: cotton, corns, barley, wheat, flax, alfalfa; Vegetables: onions, potatoes, beet, and peas; Fruit: apples, pears, apricots; Specialty Crops: hops, wolfberries, cumin, liquorices; Seeds: black melon seeds, sunflower seeds, corn seeds, flax seeds, hemp seeds; Poultry: eggs. We also produce many additional fresh fruits and vegetables which we supply to local and provincial markets.

We generated approximately 22.7% of our revenues from field crop based products, 14.9% from vegetable based products, 30.1% from fruits, 21.1% from specialty crops, 11.2% from seeds, and 1.9% from poultry products and the residual from other production during the year ended December 31, 2013.

**The following discussion of our operating performance is based upon the 2013 and 2012 financial statements and the agriculture industry within the PRC.**

***Growth of China's agriculture industry.*** China is currently the world's largest agricultural economy and a leading importer and exporter of agricultural products. China's agricultural sector continues to change as it responds to the rising and increasingly sophisticated demands of domestic and foreign consumers, adapts small-scale farm structure to global food markets, and competes with other sectors for labor, investment capital, and scarce land and water resources. We believe agriculture product consumption in China will continue to grow due to increased affordability of agriculture processed products in concert with China's economic growth and increased health and wellness consciousness. We expect these factors to continue to drive industry growth, especially in our primary markets. Such growth will not only increase the overall market size for processed products, but will also greatly benefit companies such as ours that are well positioned to sell into these markets.

***PRC Government Policy Promoting the Development of the Agriculture Industry.*** In the PRC central government's eleventh five-year guideline, the central government emphasized its determination to solve the problems of farmers, boost modern agriculture and increase rural affluence. After the onset of the economic crisis in late 2008, the PRC Ministry of Agriculture, or MOA, also stated its objective to promote agriculture commercialization. We believe that our business model is structured within the framework of these MOA initiatives and that government policies will continue to have a positive impact on the sale of our products.

***High-tech Agriculture.*** We own the land use rights to over 115,000 acres of farmland that are cultivated using the latest scientific technologies to produce a wide variety of agricultural products. In addition we have invested in several new hi-tech industrial projects including the introduction of the most advanced and expansive drip-irrigation system, through a joint venture with Netafim a global manufacturer of advanced drip irrigation systems and GanSu Yasheng Industrial Group. The facility has an annual capacity of 120 million meters, all of which is carried out according to Netafim technical standards. The facility offers irrigation systems and related technology that aid in the optimization of water and fertility of crops, which increases yields while lowering production costs.

**ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued**

Apart from farming, we operate processing plants that produce super grade malt and granulated hops in large volume which we supply for leading brewers in China with long term supply contracts, including Tsingtao Beer, Yanjing Beer and Zhujiang Beer.

The shift from traditional farming to modern, hi-tech precision agriculture is expected to make us the largest, high efficiency agriculture base in China.

**Product Offering and Pricing.** Agriculture products have been and are expected to remain our primary product base. We are a national strategic commodity supplier for China and continue to expand into high end markets with quality agriculture products. Our product pricing remains competitive principally because of our vast amount of resources, available low cost labor, high tech agriculture practices, and long standing relationships with our customers. In the future we plan to continue to focus on higher margin deep processed products and have begun implementing a strategic plan to expand our product line with by-products from our core cultivated agro raw materials such as hops extract, hemp products ,flavorings, deep potato processing, organic fertilizers, animal feeds, eco-friendly pesticides, and bio energy. The gross margins for our agriculture products for the years ended December 31, 2013 and 2012 were approximately 13% and 12.8%, respectively.

**Fluctuations in Raw Material Supply and Prices.** The per unit cost of producing our products is subject to the supply and price volatility of raw materials, especially agriculture products which are affected by factors such as weather, growing condition and pest that are beyond our control. Historically, we have been able to meet our agriculture supply needs by building our processing facilities in close proximity to orchards and by collaborating with local government and establishing an effective group of suppliers. Increases in the price of inputs would negatively impact our gross margins if we are not able to offset such price increases through increases in our selling prices or changes in product mix.

**Seasonality and the growing season.** As with an agricultural operation we experience seasonality in our business. The harvest season for our agriculture products are generally from mid-July to mid-November every year, exclusive of a smaller amount of product grown during the winter in greenhouses.

**Reduction in income taxes.** We are exempted from income taxes for our agricultural products.

**Expansion of our production capacity.** Expansion of our capacity is needed to satisfy increased demand for our products. In order to increase production in a meaningful way capital investment will be needed to build additional capacity to satisfy the projected demand of our products.

**Cement manufacturing business segment.** Included in our consolidated financial statements are results from the Company’s cement manufacturing business operations. For the years ended December 31, 2013 and 2012, this business contributed revenues totaling \$6.84 and \$6.75 million respectively which represents less than 1.3% of total consolidated sales for either year. The business volumes of this segment have been and are expected to continue to remain relatively constant and are not significant to warrant separate segment reporting.

**Effects of inflation.** Inflation and changing prices have not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future. However, our management will closely monitor price changes in agriculture products and continually maintain effective cost control in operations.

**Results of Operations**

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Dollars (000's)	% of Sales	Dollars (000's)	% of Sales
Net Sales	\$ 1,011,324	100.0%	\$ 993,102	100.0%
Costs of Goods Sold	867,846	85.81	859,918	86.58
Gross profit	143,478	14.19	133,185	13.41
Sales and marketing expenses	2,010	0.2	1,944	0.2
General and administrative expenses	4,725	0.47	4,599	0.4
Interest expense	937	0.09	1,110	0.11
Other income	688	0.07	886	0.09
Net income	\$ 136,493	13.5	\$ 126,417	12.72





**ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -**  
*continued*

The functional currency of our operations is the Chinese RMB which is being reported in US Dollars for financial statement reporting purposes. The results of operations reported in the table above are based on an average exchange rate of 6.1633 RMB to \$1 US for the year ended December 31, 2013 and an average exchange rate of 6.31 RMB to \$1 US for the year ended December 31, 2012.

**Net Sales.** In the beginning of 2013, the global economy continued to recover. The company expanded seed, vegetable and organic agricultural product lines, with strengthened internal control system implementation. We generate sales from our farm and side line products. Net sales for the year ended December 31, 2013 increased \$18 million or 1.8% to \$1,011 million as compared to \$993 million for the year ended December 31, 2012. The increase in net sales was attributable to higher yields and a better product mix. We also continued to benefit from expanded distribution channels. However, at the beginning and the end of 2013, most of the northern regions experienced cold weather with snow and wind, negatively affecting fruit tree harvests.

**Cost of Goods Sold.** Our cost of goods sold consists primarily of the costs of raw materials, labor, and overhead. Cost of sales for the year ended December 31, 2013 increased by \$7.9 million, or 0.9%, to \$868 million from \$860 million for the year ended December 31, 2012. Due to management’s continued heightened focus on cost control exercised throughout production, costs grew less than sales. The Gansu Provincial Development and Reform Commission reported that in 2013 the major reasons for increased agricultural costs were: transportation and diesel costs continued to rise, fertilizer prices are stable during the year, the costs for consumables such as pesticides, seeds, agricultural film increased, and labor costs continued to rise.

**Gross Profit and Gross Margin.** Our gross profit for the year ended December 31, 2013 increased \$10.3 million or 8% to \$143 million from \$133 million for the year ended December 31, 2012. The profit improvement was a result of increased production.

**Sales and Marketing Expenses.** Our sales and marketing expenses for the year ended December 31, 2013 remained almost level with an increase of \$0.07 million as compared to the prior year ended December 31, 2012 due principally to management’s continued emphasis on cost control.

**General and Administrative Expenses.**

Our general and administrative expenses for the year ended December 31, 2013 increased by \$0.13 million as compared to the prior year ended December 31, 2012, due principally to management’s continued heightened focus on controlling costs.

**Interest Expenses and Other Income.** Our interest expense was reduced to \$0.94 million, and other income decreased to \$0.69 million, respectively for the year ended December 31, 2013.

**Accounts receivable, net:** The Accounts Receivable, net ending balance was \$103 million, at the beginning of the year it was \$92 million, giving an increase of 12%.

**Inventories:** The Inventory ending balance was \$319 million compared to \$227 million for the year ended December 31, 2012. This gives an increase of 40% which was mainly the result of the conversion exchange rate, and the increases in chemical fertilizers, pesticides, seed reserves, increasing inventory will increase revenues.

**Property, plant and equipment, net:** The ending balance of property, plant and equipment was \$849 million; the beginning balance was \$785 million. This increase of 8% was due mainly to the result of the changes in the exchange rate.

**ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued**

**Construction in progress:** Construction in progress has an ending balance of \$7.08 million and the beginning balance of \$7.49 million. This was an decrease of 5.4%.

**Accounts payable and accrued expenses:** The accounts payable ending balance was \$31.5 million

**Liquidity and Capital Resources**

Cash generated from operation is our primary source of operating liquidity and we believe that internally generated cash flows are sufficient to support day-to-day business operations. Our working capital management team actively monitors the efficiency of our balance sheet under various macroeconomic and competitive scenarios. These scenarios quantify risks to the financial statements and provide a basis for actions necessary to ensure adequate liquidity, both domestically and internationally, to support our acquisition and investment strategy, and other corporate needs. We utilize external capital sources, such as long-term notes and structured financing arrangements, and short-term borrowing, to supplement our internally generated sources of liquidity as necessary.

The following table provides information about our net cash flows for the financial statement periods presented in this report (amounts in thousands of U.S. Dollars).

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Net cash provided by operating activities	\$ 51,093	\$ 23,703
Net cash used in investing activities	(43,779)	(11,122)
Net cash used in financing activities	(8,353)	(13,203)
Cash and cash equivalents at beginning of the period	10,980	10,714
Cash and cash equivalents at end of period	11,337	10,980

Net cash provided by operating activities was \$51 million for fiscal year 2013 as compared to \$23.7 million for fiscal year 2012. Net cash provided by operating activities was higher during the current year in relation to the prior year principally because of increases in net sales and reductions in the amount of account receivables outstanding. Net cash used in investing activities was \$43.78 million for fiscal year 2013 as compared to \$11.12 million in fiscal year 2012. The increase was attributed to assets purchase. Net cash used in financing activities was \$8.35 million for calendar year 2013 compared with \$13.2 million for calendar year 2012. The decrease was attributed to less debt repayment during the current year as compared to the previous year.

We believe that our cash on hand and cash flows from operations, together with anticipated additional cash resources, will meet our expected capital expenditure and working capital for the next 12 months. In addition, we may, in the future, require additional cash resources due to changed business conditions, implementation of our strategy to expand our production capacity or other investments or acquisitions we may decide to pursue. If our own financial resources are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to expand our business operations and could harm our overall business prospects.

**Key Performance Metrics –** Our cash conversion cycle for fiscal year ended December 31, 2013 deteriorated from the fiscal year ended December 31, 2012. Our business model allows us to maintain an efficient cash conversion cycle, which compares favorably with that of others in our industry.

	<b>Fiscal Year Ended</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Days of sales outstanding(a)	37	33	35
Days of supply in inventory(b)	50	45	37
Days in accounts payable(c)	25	22	31
Cash conversion cycle	62	56	41



**ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued**

- (a) *Days of sales outstanding ("DSO") calculates the average collection period of our receivables. DSO is based on the ending net trade receivables and the most recent yearly revenue for each period. DSO also includes the effect of product costs related to customer shipments not yet recognized as revenue that are classified in other current assets. DSO is calculated by adding accounts receivable, net of allowance for doubtful accounts, and customer shipments in transit and dividing that sum by average net revenue per day for the current year (360 days).*
- (b) *Days of supply in inventory ("DSI") measures the average number of days from procurement to sale of our product. DSI is based on ending inventory and most recent quarterly cost of sales for each period. DSI is calculated by dividing inventory by average cost of goods sold per day for the current year (360 days).*
- (c) *Days in accounts payable ("DPO") calculates the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and most recent quarterly cost of sales for each period. DPO is calculated by dividing accounts payable by average cost of goods sold per day for the current year (360 days).*

*The DSO increased 4 days, the DSI increased 5 days, and the DPO increased 3 days in 2012, compared to 2011, this main due to the price of materials and finished goods rise up greatly in 2012, and we purchase our materials mainly in the first half year, and harvest and sell most of our products in the second half. We updated the contracts with our vendors and customers in the second half year, so the price of materials and products were flat in the first half year. And these make the DSI increased greatly but the DPO decreased greatly.*

**The main work of the board of directors within the year is as follows:**

- (a) Set up the Company's strategy orientation of "Taking modernization of agriculture as the direction, professional company group as a profit center, relying on the resources superiority, strengthening and expanding special advantage agricultural products". The company will give a full play to its advantages in resources, breaking the regional boundaries, implementation of assets optimization and restructuring, and industrial management, strive to develop quality high-efficiency agriculture. Integrate the processing abilities of those products and industries with characteristic superiority, strong market competitiveness, high economic efficiency and market share reaching a certain scale, such as hops, seed potatoes etc., Reform of internal management system and shift operation mechanism so that the product quality and yield will be improved, which enhances the competitiveness of our advantageous industries in the market.
- (b) Utilize a variety of financing methods to ensure smooth operations of our funds, which can effectively connect our capital chain and unify our cash flow. Take on a way of a combination of normal long-term loans and short-term loans which ensures that the continued access to funds is spent effectively. In particular, in 2011, all the audited statements have appeared in the filings with the SEC, which has made us a public company fully reporting with the SEC, which has opened up new markets for our capitalization operation and product sales, simultaneously it has also injected new vitality for our development.
- (c) Embrace our goals and policy, adjust our actual results to these goals and policies, steadily promote the progress of our subsidiaries' construction projects, make full use of the central and local government's policies to strengthen agriculture and benefit farmers, and combining with own industry development requirements, by the approval by the first meeting of our third provisional board of directors, implement the beef cattle breeding project, expand the farming project, and purchase of mining project, investment in biotechnology R & D projects, among which the investment of the conversion of desolated land to arable land has been completed.
- (d) Strengthen the management, implement new rules and regulation when necessary and appropriate, gradually standardizing our operation. First, in strict accordance with the provisions of "Company Law of the People's Republic of China" and "Securities Law of the People's Republic of China", based on the original and according to our new development requirements, and further improve our management systems, standardize our operations to enhance our ability to control. Secondly, strengthen the company's operating management. By refining and improving the management objectives responsibility, we will endeavor to successfully complete of our annual business objectives.

From the macroeconomic situation, the development of the world economy is entering an adjustment and transformation period, the impact of the financial crisis will continue to be quite a long time, the change of domestic and international economic situation will bring greater fluctuations to agricultural products' production, processing, import and export, consumption etc. The uncertainties of the policies such as domestic inflation expectation, credit squeeze, which will also exert a measure of influence over our operations. Simultaneously, agriculture, as the foundation of the national economy, the agricultural production enterprises are still the key area the State strongly supports, and the State's changes and guidance to agricultural policies may also exert direct and uncertain influence over our operations.

## **ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued***

### **Future development trends of the company**

The main strengths and opportunities that we are facing in our future development:

(a) Agriculture is a basic industry to which the Chinese Central Government gives long-term key aid. All levels of the people’s government recently have published a number of supporting agriculture policies, which has provided a good opportunity for our development.

(b) We are an Agricultural Industrial Leading Enterprise by ways of publishing policies such as interest subsidies, tax preferences, etc. By encouraging the development of leading agricultural enterprises, the State leads agriculture to develop in the direction of going to scale, industrialization and modernization.

(c) China attaches great importance to application of water-saving irrigation technology in agriculture, and for that reason, it will also vigorously support the development of water-saving irrigation industry in respect to industrial policy and funding.

(d) We are rich in land resource. In recent years through the measures of transformation of planting base, application of drip irrigation technology, implementation of regional and large-scale crop cultivation and introduction of new varieties, and the use of large-scale agricultural operations and intensive management, we has enhanced the level of agricultural industrialization, which has displayed the industry pattern of taking hops, beer barley and potato as its leading products.

(e) As a national agricultural industrialization leading enterprise, our products such as hops and beer barley have a strong brand advantage, the quality of hops has a higher visibility in the international beer brewing industry, and products such as fruit and vegetable have repeatedly won gold and silver awards in Product Exposition of the former Ministry of Forestry.

(f) We are actively exploring the development of a mineral industry and anticipate that in the future the mineral industry will become a new profit growth center.

(g) As a multinational company, we are faced with opportunities and challenges, our targets from a long-term point of view are to exploit overseas markets, strengthen international exchanges and cooperation. As an overseas listed company, we have endeavored to obtain the unique resources superiority, modern leading-edge large-scale agriculture, and industrial development advantages, advantages of modern management systems, and established comprehensive direction and understanding of objective environment and development situations that we are facing. We are in an important strategic opportune period that we hope will lead to our developing our potential. We will face more opportunities, competition will be more intense, situation will be more complex, and there will be new challenges. We must actively seek policies support of national and higher authority, possibly struggling in our goal of becoming a leader in the construction of the modern large-scale agriculture.

### **2013 board meetings**

Board of Directors discussed the company's accounting policy, changes in accounting estimates, significant accounting errors correction, significant supplemental information omissions and performance announcement in advance, and Accountability measures on some responsible persons and Results of Transaction.

During the reporting period, there are no major changes in accounting policies and accounting estimates, significant accounting errors correction significant supplemental information omissions and performance announcement in advance.

The daily work of the board of directors: 1. board meetings and resolutions, 2. implementation of General Assembly resolution of shareholders

### **Our development strategy**

We will strive to grasp the important development strategy for the current period, with the help of the policies to strengthen agriculture and benefit farmers, build up a modern large-scale industrial system of agriculture that is interacting with each other with high-efficiently integrated and highlighting the core competencies. We will compete in the building of China's major economic area of modern agriculture and efficient ecological economic zone. We will use our resources to attempt to gain agricultural resources superiority, aiming at building a large base, cultivating and supporting large projects and forming a big industry, will seizing the opportunity of industry development and investment, strengthening market research development efforts, adjusting agricultural planting structure, developing all resources, improving the comprehensive utilization efficiency of land resource, establishing a high standard modern agricultural logistics system, enhancing the overall efficiency of the industry, achieving our long term plan and the overall strategy of building the province's high-quality modern agricultural enterprise group. We will continue to strive to make us become one of the listed companies in agricultural industry in western China with most comprehensive competitiveness and a western modern agricultural construction industry leader. We will also seek to make full use of our advantages, highlighting the advantages of green products in Gansu Province, expand existing and further processing of agricultural products, which we believe will make us an influential domestic and international high-tech agricultural demonstration base and green (organic) products production base. Through the modern processing of agricultural products, continuously embracing forward scientific and technological innovation, actively exploring a variety of businesses, extending the industrial chain, enhancing the status of listed companies and achieving the sustainable development of our subsidiaries, we believe we will create a good return for our shareholders.



**ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -  
continued**

**Key continued construction plans**

**A. Cogeneration of 600,000 tons / year methanol project**

Through the comprehensive utilization of a JISCO converter, blast-furnace gas, coke-oven gas and natural gas resources , we will build a large methanol plant in Jiayuguan City, Gansu Province, which is part of the implementation of the construction of circular economy and eco-city, but implementation of our decision of being consistent with the national energy structure adjustment and develop-the-west strategy.

According to the Recommendation Memo of Jiayuguan Municipal Development and Reform Commission and the supply capacity of Metallurgy exhaust gas and raw materials natural gas of JIUQUAN IRON AND STEEL CO., LTD, we determined that the methanol generation of the project is 2015 tons / day, and the nominal capacity is 600,000 tons / year. If the actual capacity becomes 84 tons / hour with an annual total operating time at 7200 hours, then the actual projected production is 604,000 tons / year.

The total investment of the project is expected to be \$234 million, of which \$213 million is investment in fixed assets, working capital of \$10 million and construction period interest on \$11 million.

After completion of the project, the annual sales income is expected to be \$130 million, and annual taxes paid and extra charges should total \$18 million with an annual average net income of \$ 30 million. The investment profit rate of the project is projected to be 12.02%, the profit and tax rate is projected to be 20.45%, the total project payback period is expected to be 7.62 years (including construction period).

**B. The comprehensive exploitation project of 400,000 acres of pasture**

Construction Contents:

- (a) 400,000 acres of derelict land recovery, development and consolidation, which will be based on an efficient and economic grass, to effectively increase in vegetation and rate of stocking, achieving grazing capacity/acre of 2 cattle, 2 sheep. The main construction content is to repair and match 160 motor-pumped wells and systematically construct sprinkling irrigation and grass systems.
- (b) Construct winter brooders for cattle and sheep, with an area of 800,000 square meters and 640,000 square meters respectively, and complete a full range of facilities in the winter brooders. Livestock inventories are projected to be 688,000 cattle and 240,000 sheep.
- (c) Implement the construction of 400,000 acres of pasture by sealing the grassland
- (d) Construct a cattle and sheep breeding center
- (e) Introduce 320,000 fine breeds of cattle and 240,000 sheep; purchase 80,000 beef cattle for fattening
- (f) Construct 8 cattle and sheep slaughtering production lines, respectively (medium and small production line).

Through the comprehensive development of 400,000 acres of pasture, shape the scale of amount of livestock on hand of 368,000 beef cattle and 240,000 mutton sheep, we believe we will achieve an annual production capacity of 92,000 tons of beef and 10,080 tons of mutton sheep. The total investment of the project is \$322 million, of which \$153 million is investment in fixed assets and working capital of \$169 million. After completion of the project, which could realize sales income of \$321 million with annual additional net earnings of \$73 million.



## **ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued***

### **C. The further processing project of line of potato products**

Based on the analysis of the potato industry market and the development trend at home and abroad, the potato industry will become the 21st century's most promising and most competitive industry.

The project consists of five components: (a) seed potato system construction; (b) construction of production bases of dedicated high-quality merchandise potato; (c) the construction of industry group of potato further processing; (d) the construction of market circulation system; and (e) new products research and development and construction of a quality assurance system.

The total investment of the project is \$80 million, and after the project is completed, the annual additional sales revenue is projected to be \$107.5 million, and the new additional net income is projected to be \$25.8 million.

### **D. Industrial hemp planning**

In 2014, Yasheng Group plans to increase development and research of industrial hemp. It has successfully formed and planned industry chains such as seed growing, cultivation, preliminary work to research and develop fiber, hemp seed processing, new types of building material, health food, and clothing.

#### **Hemp projects Yasheng Group has planned for 2014:**

Natural green health knitwear, Including: Clothing design and processing with the use of hemp fabrics. This kind of textile fabric can shield more than 95% of ultraviolet (UV) light, does not change color in 370 ° temperature, does not burn at 1000 ° , and has good heat resistance and sun-proof performance.

Hemp health socks distribution: Yasheng Group's Original Brand - Hemp Route Socks: which have been knitted by hemp and cotton together in different proportions. The foot care function is superior to that of cotton socks, its biggest characteristics been deodorization, disinfection, and prevention and treatment of Athlete's Foot.

Hemp oil and hemp protein processing and production projects: hemp seed contains eight kinds of essential amino acids needed by everyone, the unsaturated fatty acid content is close to 90%, higher than deep sea fish Oil. Hemp extraction for Cannabinoid and CBD applications: The application of Cannabinoids has been recognized (including cannabidiol ("CBD") and used to provide analgesia and neuroprotection, reduce inflammation and help relieve nausea and vomiting, as well as the treatment of epilepsy, anxiety, and glaucoma.

Yasheng Group has set up hemp ecological agriculture bases in Gansu Province and the Inner Mongolia Autonomous Region. Approximately 10,000 mu of hemp were planted in 2013, and in 2014 the planned cultivated area of hemp will be expanded to over 20,000 mu.

In 2013, Yasheng Group registered the URL [www.hemproute.com](http://www.hemproute.com). The site will be used to market the company's hemp products in the United States.

Yasheng Group devoted itself to exploring the international market for hemp, and has formally invested in the scientific research projects such as hemp cultivation and hemp fiber processing and comprehensive utilization of hemp. Currently, only China, Canada, France and Germany have grasped the development and utilization technology of hemp fiber. China's R&D results have reached an advanced level compared to the rest of the world.

### **E. Angel Star infant formula produced in the US project**

Angel Star Nutrition LLC is a startup company that was formed to develop, manufacture in the USA, and export/distribute infant formula products to the Chinese health conscious consumer marketplace.

Angel Star Nutrition LLC was founded by the need to supply China, the world's largest consumer market, with a quality infant formula produced in the USA. In response to the melamine infant formula scandal in 2008, Yasheng Group saw an enormous market opportunity to enter the Chinese market by manufacturing infant formula in the United States and exporting/distributing to China. After several years of product development and waiting for approval from the Chinese and US food safety agencies, Angel Star Nutrition LLC is now one of the few companies capable of supplying high-quality USA infant formula to China.

Angel Star Nutrition LLC. Is a modern state of the art infant formula manufacturer located in Utah, USA. This assures the highest FDA safety standards that the Chinese consumer market demands. Yasheng Group employs over 200 people distributing products through its own extensive nationwide sales and distribution network in China. Our network covers 19 provinces and over 118 cities with approximately 232 distributors reaching a market that is over 500 million Chinese consumers and growing. Angel Star formulas are created based on specific strict nutritional guidelines and approved by the Chinese government. Angel Star facilities that produce, process and package Angel Star products conform to USDA, FDA and Chinese Government inspection and license requirements.

(a) Continue to focus on our subsidiaries production and operation through smooth implementation of all the production and operation plans to enhance our economic efficiency.

(b) Make full use of a listed company platform, secure capital operation and financing and continue our budgeting for our normal operation and further development of economies of scale.

**ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -  
continued**

(c) Enhance project and industrial systems management, highlighting the leading industry growth. Seek to exploit the valuable opportunity that China's Great Western Development Strategy is entering a new historical stage and the policy opportunity that the central government is strongly supporting Gansu Province's economic work and rural work. We plan on using the project construction as catalyst, highlighting leading industry growth, and actively promoting modern agriculture construction, renovating and completing the industrial system, and promoting a virtuous circle of the production and operation.

(d) Strengthen financial management to further standardize the operations of the branch offices and subsidiaries. We will seek further standardize the management of the branch offices and subsidiaries in the areas of a listed company's standard operation, internal control and financial management and enhance training to improve the company's control and competitiveness.

(e) Encourage team spirit and make efforts to foster a business culture and climate of democratic leadership and employee trust.

(f) Enter into China's milk powder market by importing high-quality infant formula from the U.S.

(g) Enter into mining business in the United States.

(H) Enter into Organic farming and food business

(I) Enter into Organic Fertilizer Business

(J) Enter into a Global expansion for HEMP industry business

**Off-Balance Sheet Arrangements**

As of December 31, 2013 and for the three years then ended, we were not party to transactions, obligations or relationships that could be considered off-balance sheet arrangements and we do not have off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures or capital resources that is material to an investor in our securities.

**Critical Accounting Policies and Estimates**

Our significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements. The additional discussion below addresses our more significant judgments.

*Impairment of long-lived assets.* Long-lived assets, except goodwill and indefinite-lived intangible assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows estimated by our management to be generated by such assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of by sale are recorded as held for sale at the lower of carrying value or estimated net realizable value.

All land in the PRC is owned by the PRC government. The government in the PRC, according to the relevant PRC law, may sell the right to use the land for a specific period of time. Thus, all of our land purchases in the PRC are considered to be leasehold land and are stated at cost less accumulated amortization and any recognized impairment loss.

*Property, plant and equipment, net.* Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred. The principal estimated useful lives generally are: buildings – 20 years; leasehold improvement – 10 years; machinery - 10 years; furniture, fixtures and office equipment – 5 years; motor vehicle – 5 years. During the idle period of the plant, depreciation is treated as current-period charges, which is charged directly to general and administrative expense.

**New Accounting Standards**

See Note 1 to the Consolidated Financial Statements for information regarding other new accounting standards that could affect us.

**ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Disclosures about Market Risk.**

We may be exposed to changes in financial market conditions in the normal course of business. Market risk generally represents the risk that losses may occur as a result of movements in interest rates and equity prices. We currently do not use financial instruments in the normal course of business that are subject to changes in financial market conditions.



## **ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - *continued***

### ***Currency Fluctuations and Foreign Currency Risk.***

All of our operations are conducted in the People's Republic of China and all of our sales and purchases are conducted within the People's Republic of China in RMB, which is the official currency of the People's Republic of China. The effect of the fluctuations of exchange rates is considered minimal to our business.

All of our revenues and expenses are denominated in RMB. However, we use US dollars for financial reporting purposes. Conversion of RMB into foreign exchange currencies is regulated by the People's Bank of China through a unified floating exchange rate system. Exchange rate fluctuations may adversely affect the value, in US dollar terms, of our net assets and income derived from our operations in the People's Republic of China.

### ***Interest Rate Risk.***

We have interest rate risk related to short term note customarily entered into in our business; however, we do not believe this interest rate risk is significant.

### ***Credit Risk.***

We have not experienced significant credit risk, as most of our customers are long-term customers with superior payment records. Our receivables are monitored regularly by our credit managers who actively review, in conjunction with senior management, the credit status of our customers to increase reserves, as required, for doubtful accounts as our business continues its expansion.

## **ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**The Financial Statements that constitute Item 8 are included at the end of this report beginning on Page F-1.**

## **ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

**None.**

## **ITEM 9A (T). CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management, including Chief Executive Officer and Principal Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), to ensure that information required to be disclosed by the company in the reports filed or submitted by us under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Principal Accounting Officer, or persons performing similar functions, to allow timely decisions regarding required disclosure.

In our last annual report for fiscal year 2011, we concluded our disclosure controls and procedures were not effective because we did not timely file our periodic reports. However, on August 13, 2010 we completed filing our past due periodic reports. What's more, the company took active actions to remedy its disclosure controls and procedures, including but without limitation to, allocate more management and financial personnel with U.S. GAAP experience and outside financial counsels as well as supporting staff, to maintain and reinforce our internal controls and procedures. We monitor the disclosure controls and procedures through our internal self-assessments program. As a result, our reports have been filed on a timely basis after we finished filing our past due reports. Based on our evaluation, our Chief Executive Officer and Principal Accounting Officer concluded that as of December 31, 2012, our disclosure controls and procedures were effective.

### **Management's Annual Report on Internal Control over Financial Reporting.**

#### **History**

In 2004 GanSu Yasheng Salt Industrial Group established Yasheng Group, a California Corporation to prepare for a listing on a U.S. public exchange, access international markets, and implement the company's expansion plans.

## **ITEM 9A (T). CONTROLS AND PROCEDURES - *continued***

On July 16, 2004, the Company entered into an agreement to acquire Nicholas Investment Company, and subsequently assumed its reporting requirements under the Exchange Act.

Subsequent to the acquisition and pursuant to Rule 12g-3(a) of the General Rules and Regulations of the Securities and Exchange Commission, we elected to become the successor issuer to Nicholas Investment Company, Inc., for reporting purposes under the Securities and Exchange Act of 1934, and elected to report under the Exchange Act effective July 16, 2004.

Due to a lack of the PCAOB registered auditor, on September 6, 2006, we filed Form 15-12g, required by Rules 12g-4, 12h-3 and 15d-6 of the General Rules and Regulations under the Securities Exchange Act of 1934. As of August 13, 2010 our filings have been current.

### **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 Rules 13a-15(f) and 15d(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was not effective as of December 31, 2012.

As a Smaller Reporting Company, the Company is exempt from Section 404(b) of the Sarbanes-Oxley Act of 2002 which requires the independent auditor of a public company to issue an attestation report on the Company's internal control over financial reporting and management's assessment of those controls under Section 404(a).

### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our internal control over financial reporting will prevent all errors and all frauds. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurances that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The Hongxin CPA, an independent registered public accounting firm, has audited the consolidated financial statements of Yasheng Group for the fiscal year ended December 31, 2013, in accordance with the auditing standards generally accepted in the United States of America and with accounting principles generally accepted in the United States of America, and as part of their audit, has issued their report, hereinafter, on the effectiveness of our internal control over financial reporting.

### **Changes in Internal Control over Financial Reporting**

Since the first quarter of our 2010 fiscal year, we began to implement the remedial measures described above; including but without limitations to: hiring financial professionals and supporting staff in both U.S. and China; intensifying the interaction and cooperation between our U.S. and China offices; launching special employee training sessions with a focus on internal control; enhancing the design and documentation of our internal control policies and procedures to ensure appropriate controls over our financing reporting.

Excepted as described above, there were no changes in our internal control over financial reporting during our fiscal year of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 9B. — OTHER INFORMATION**

Not Applicable



## PART III

### ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### Directors, Executive Officers and Significant Employees

The following table sets forth the names and ages of our current directors and executive officers, the principal offices and positions with us held by each person and the date such person became our director or executive officer. There was no arrangement or understanding between any executive officer or director and any other person pursuant to which any person was elected as an executive officer or director. There are no family relationships between any of our directors, executive officers, director nominees or significant employees.

None of our directors or executive officers was involved in a legal proceeding during the past ten years which are material to an evaluation of the ability or integrity of any director, person nominated to become a director or executive officer of the Company and required to be disclosed under Item 401(f) of Regulation S-K. Except as otherwise disclosed in the section “Biographies” below, none of our current directors have held any directorship in any public company or any investment company under the Investment Company Act of 1940 (naming such company) during the past five years.

<u>Name</u>	<u>Age</u>	<u>Position Held</u>	<u>Date Appointed/Elected</u>
Dong Ye	55	Chairman and Chief Executive Officer	2013
Wu Mei Ping	43	President/Director	2003
Wang Deng Fu	57	Director	1998
Zhuang Hai Yun	44	Director and Chief Financial Officer	2004
Wang Xitian	58	Director	2007
He Shurong	57	Director	2007
Wei Lefu	65	Director	2007
Yang Shengniu	54	Director	2008
Wei Tingwu	47	Director	2010
Yang Baoquan	47	Director	2010
Zhang Xinmin	44	Director	2010
Liu Darong	47	Director	2010
Wang Anxue	59	Director	2010

#### Biographies

**Mr. Dong Ye.** Chairman of Yasheng Group, Mr. Dong Ye is 55 years old and graduated from the Institute of Hexi College in Gansu Province in 1982 with a bachelor’s degree in economics. Mr. Dong Ye’s first employment was with the Gansu AluminuYe Group. From May 1983 to July 2000, Mr. Dong Ye successively served as Principal of the Children Secondary School of the Gansu Aluminum Group Company, Secretary of Youth League Committee of the Group Company, Propaganda Minister, Office Director and Deputy General Manager of Gansu Wan Xuan Aluminum LLC. From August 2000 to August 2002, Mr. Dong Ye further studied in the Graduate School of BNU (Beijing Normal University) majoring in "Management Philosophy". From September 2002 to July 2003, he took a temporary post in the Shenzhen KaiShi Group, serving as standing Vice General Manager. From April 2008 to March 2011, Mr. Dong Ye served as General Manager of Lanzhou (Gansu Province) New West Wei Niwei Plant. From April 2011 to April 2013, he served as Party Secretary of the Company. From June 2012 to April 2013, he was Deputy General Manager of the Company and since April 2013 he has been holding the post of Chairman of YaSheng Group.

**Wu Mei Ping.** Ms. Wu is President of YaSheng Group and sits on the Board of Directors. She is also holds an honorary PhD in Architecture and a master of Business Administration. Ms. Wu practiced architecture for many years and designed dozens of significant buildings throughout Northwestern China. She is an accomplished and published artist. Ms. Wu works for YaSheng Group for over eleven years and has been an active business leader in the bay area of California for twelve years. She has accumulated extensive experience in operation and management. Ms. Wu is also Honorary Principal of Silk Road Fine Art Research Institution.



## ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE - *continued*

**Mr. Zhuang Haiyun.** Mr. Zhuang has served as both the Chief Financial Officer and Director of the Company since March 2007. Between February 2005 and May 2006, Mr. Zhuang was the Chief Financial Officer of Gansu Salt Industrial Group. From December 2003 to March 2007, he served as the Chief Financial Officer of Yasheng Group. Mr. Zhuang was the General Accountant of Gansu Salt Industrial Group from June 1998 to November 2003. Mr. Zhuang holds a bachelor degree in Accounting. Mr. Zhuang, a Senior Accountant, has over 16-year experience in business administration and finance of agriculture industry.

**Mr. Wang Dengfu.** Mr. Wang became the Director of the Company in 2003. From June 2000 to May 2008, he served as a Director and subsequently Chairman of Gansu Yasheng Industrial Group Co., Ltd. From June 1997 to May 2000, Mr. Wang was the Deputy General Manager and later General Manager of Gansu Yasheng Salt Industrial Group Co., Ltd. between May 1987 and May 1992, Mr. Wang was a Director and subsequently Chairman of Gansu Jinsheng Industrial Co., Ltd. Mr. Wang holds a MBA degree. Mr. Wang, a Senior Economist, has more than 30-year experience in business management and finance of agriculture and chemicals industry.

**Mr. Wang Xitian.** Mr. Wang became a Director of the Company in March 2007. From March 2006 to August 2009, he was Secretary of Party Committee of Gansu Yasheng Industrial (Group) Co., Ltd. From May 1992 to May 2008, Mr. Wang served as Managing Director of Gansu Agricultural Reclamation Zhangye Farm. Mr. Wang holds a Bachelor degree in Business Administration. He has over 25-year experience in operation and management of agriculture industry and is recognized as an innovative leader in transforming the industry.

**Mr. Wei Lefu.** Mr. Wei became a Director of the Company since March 2007. From June 1990 to May 2007, he was Office Director of Gansu Yasheng Salt Industrial Co., Ltd. From 1995 to 2001, he served as both Deputy General Manager and Chief Financial Officer of Gansu Agricultural Reclamation Shopping Center. From March 1985 to May 1990, Mr. Wei served as Office Director of the Financial Department of Gansu Yasheng Shengdi Bay Farm. With a degree in Accounting, Mr. Wei has more than 30-year experience in management and finance of agriculture industry.

**Ms. He Shurong.** Ms. He became a Director of the Company and Chairwoman of Audit Committee in March 2007. From April 2003 to February 2007, Ms. He served as Chief Officer of Organization Department of Gansu Yasheng Salt Industry Group Ltd. From July 1985 to 2003, she served as a teacher and subsequently Section Chief of Studies of University of Gansu Radio and Television at Yasheng. Ms. He holds a master degree. Ms. He, an Administration Engineer, has more than 25-year experience in administration, finance and business.

**Mr. Yang Shengniu.** Mr. Yang became a director of the Company in March 2008. He has been a Director and subsequently Chairman of Gansu Yasheng Salt Industry Co., Ltd. since June 2008. From May 1995 to May 2008, Mr. Yang was Office Chief of Gansu Reclamation Industrial Co., Ltd. Mr. Yang holds a Bachelor degree and has more than 25-year experience in agriculture, business administration and management.

**Mr. Wei Tingwu.** Mr. Wei has served as General Manager and Engineering Technical Director for Lanzhou Jiaoda Engineering Consulting Co., Ltd. since March 2009, where he has overseen the development and construction of many large projects throughout China. Previously, from 1997 to 2009, Mr. Wei was Technical Director with Jiuquan City Project Construction Inspection Center. He is a Senior Engineer. Mr. Wei has over 20-year experience in engineering supervision and administrative management. Mr. Wei is currently a member of the Audit Committee.

**Mr. Yang Baoquan.** Mr. Yang was the Chief Technology Officer for the Jiuquan Botanical Garden from 2001 to 2010. From 1987 to 1999, Mr. Yang served as an engineer and subsequently Technical Director for the Jiuquan City Forestry Bureau. Mr. Yang received a Bachelor's Degree from Gansu Agriculture University, majoring in Forestry and Ecological Protection. Mr. Yang is a Senior Engineer. He has over 20-years' experience in the fields of ecological protection and administrative management. He is currently both Chairman of the Compensation Committee and a member of Corporate Governance and Nominating Committee.

**Mr. Zhang Xinmin.** Mr. Zhang is a licensed attorney and certified public accountant in China. For the past five years Mr. Zhang has worked at the Jiuquan Yangguan Law Firm as a senior attorney and simultaneously with the Jiuquan Hongzheng Accounting Firm as a certified public accountant. Mr. Zhang has acted as counsel on numerous substantial corporate transactions and is expert in the area of internal control and financial audit. Mr. Zhang has been practicing law for over 12 years and holds a L.L.B degree. Mr. Zhang is currently an independent director of the Board. He also serves as both Chairman of the Audit Committee and a member of Corporate Governance and Nominating Committee.

## ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE - *continued*

**Mr. Liu Darong.** Mr. Liu has served as Chairman and legal representative with Akesai County Granite Stone Material Factory from 1995 to present. During this period, Mr. Liu took a leading role in stone material program with many large projects, including Mo Gao Grotto at Dunhuang. From 1988 to 1994, Mr. Liu was Vice Major with Gansu Qingshui County. Mr. Liu has over twenty-year experience in project and administrative management. Mr. Liu is currently an independent director of the Board. He also serves as both Chairman of the Corporate Governance and Nominating Committee and a member of the Compensation Committee.

**Mr. Wang Anxue .** Mr. Wang has served as a Senior Engineer with the Suzhou Municipal Water Affairs Bureau in China from 2000 to 2010, in charge of water resources engineering survey and design. During the period, he won a Second Prize in Science and Technology Progress at Gansu Province level. Previously, from 1986 to 2000, Mr. Wang served as the Corp Secretary for Jiuquan Dayu Co., Ltd., a listed company in China. Mr. Wang is a Senior Engineer. He holds a Bachelor's Degree in Engineering. Mr. Wang has over 25 years' experience in survey and administrative management. Mr. Wang currently is an independent director. He also serves as both a member of the Compensation Committee and a member of the Audit Committee.

### **Code of Ethics**

We have a written code of conduct that applies to all of our employees, including our directors, Chairman of the Board and Chief Executive Officer, and Chief Financial Officer. Our Code of Conduct is distributed to all employees, is available on our website at [www.yashenggroup.com](http://www.yashenggroup.com) –select the “Investor Relations” link and then the “Corporate Governance” link.

A copy of our Code of Conduct may also be obtained, without charge, upon written request to:

Investor Relations, Yasheng Group, 805 Veterans Boulevard Suite 228 Redwood City California 94063

Any amendment to our Code of Conduct and any waiver applicable to our executive officers or senior financial officers will be posted on our website within the time period required by the SEC.

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

Our Board of Directors has established an audit committee composed entirely of independent directors with the financial literacy, knowledge and experience to provide appropriate oversight. Our Audit Committee Charter is available on the Company's website at [www.yashenggroup.com](http://www.yashenggroup.com) - select the “Investor Relations” link and then the “Corporate Governance” link.

The Board of Directors has determined that Mr. Zhang Xinmin, Chairman of our Audit Committee, satisfies the criteria adopted by SEC to serve as “audit committee financial experts”. The Board of Directors has determined that Wei Tingwu and Wang Anxue, constituting all members of our Audit Committee, are independent directors with in the requirements of the Exchange Act.

None of the Company's directors serves on the audit committee of more than three public companies.

### **Compensation Committee**

Our Board of Directors has established a compensation committee comprised entirely of independent directors. Mr. Yang Baoquan has been appointed as Chairman of our Compensation Committee since September 24, 2010. Our Compensation Committee Charter is available on the Company's website at [www.yashenggroup.com](http://www.yashenggroup.com) - select the “Investor Relations” link and then the “Corporate Governance” link and is also available in print to any shareholder who requests a copy.

Our Compensation Committee is composed entirely of independent directors who are “outside directors” for purpose of Section 162(m) of the Internal Revenue Code and “non-employee directors for purposes of Section 16 of the Exchange Act.

None of the Company's directors serves on the compensation committee of more than three public companies.

## ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE - *continued*

### Governance Committee and Nominations to the Board of Directors

Our Board of Directors has established a governance committee comprised of independent directors with the financial literacy, knowledge and experience to provide appropriate oversight. Our Governance Committee Charter is available on the Company's website at [www.yashenggroup.com](http://www.yashenggroup.com) - select the "Investor Relations" link and then the "Corporate Governance" link.

The Board of Directors has determined that Mr. Liu Darong, Chairman of our Governance Committee, satisfies the criteria adopted by SEC to serve on this committee. The Board of Directors has determined that Yang Baoquan and Zhang Xinmin, constituting all members of our Governance Committee, are independent directors with the requirements of the Exchange Act.

None of the Company's directors serves on the committee of more than three public companies.

There are no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

## ITEM 11 — EXECUTIVE COMPENSATION

### Summary Compensation

All of our executive officers and directors who are also our employees receive the employee benefits disclosed under "Employees" under Item 1-Business.

The following table sets forth information regarding all forms of compensation earned by the named executive officers during the fiscal years ended December 31, 2013 and December 31, 2012, respectively.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	All Other Compensation	Total
Dong Ye CEO	2013	\$ 30,000	\$ -0-	\$ -0-	\$ -0-	\$ 15,000 (2)	\$ 40,000
	2012	\$ 30,000	\$ -0-	\$ -0-	\$ -0-	\$ 15,000 (2)	\$ 40,000
Wu Meiping, President	2013	\$ 120,000 (1)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 120,000
	2012	\$ 120,000 (1)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 120,000
Zhuang Haiyun, CFO	2013	\$ 20,000	\$ 10,000	\$ -0-	\$ -0-	\$ -0-	\$ 30,000
	2012	\$ 20,000	\$ 10,000	\$ -0-	\$ -0-	\$ -0-	\$ 30,000

(1) Ms. Wu was entitled to \$120,000 per annum but only received \$65,000 during 2013 and 2012.

(2) Mr. Dong receives certain housing, travel and auto allowances in the aggregate amount of approximately \$9,000 per year.

### Outstanding Equity Awards at Fiscal Year End

None of our named executive officers held any unexercised stock options at December 31, 2013. As of December 31, 2013, there were no outstanding stock awards.

### Director Compensation Table

Our directors do not receive cash compensation for their services. Our directors received no compensation during the year ended December 31, 2013 for serving as directors.

### Employment Agreements

We have employment agreements with our officers or employees who also serve as directors. Messrs. X. Wang, D. Wang, Wei and Yang and Ms. He each received approximately \$12,000 per year paid by Gansu Yasheng for serving as our employees or employees of our subsidiaries.



## ITEM 12 — SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our common stock as of December 31, 2013, on which date there were 155,097,355 shares of common stock issued and outstanding. The information in this table provides the ownership information for:

- each person known by us to be the beneficial owner of more than 5% of our common stock;
- each of our directors;
- each of our executive officers; and
- Our executive officers, directors and director nominees as a group.

Beneficial ownership is determined according to the rules of the Securities and Exchange Commission. Beneficial ownership means that a person has or shares voting or investment power of a security and includes any securities that person has the right to acquire within 60 days after the measurement date, such as pursuant to options, warrants or convertible notes. Except as otherwise indicated, we believe that each of the beneficial owners of our common stock listed below, based on information each of them has given to us, has sole investment and voting power with respect to such beneficial owner's shares, except where community property or similar laws may apply. Investment and voting power with respect to such beneficial owner's shares, except where community property or similar laws may apply.

Name and Address of Beneficial Owner	Common Stock Beneficially Owned			
	Total Outstanding	Shares Underlying Convertible Securities (1)	Total	Percent (2)
<b>Directors and Named Executive Officers(3)</b>				
Dong Ye (2)	121,842,733	0	121,842,733	78.6 %
Wu Mei Ping (4)	11,100,000	0	11,100,000	7.2 %
Fu Wang Deng	n/a	0	n/a	n/a %
Hai Yun Zhuang	n/a	0	n/a	n/a %
Wang Xitian	n/a	0	n/a	n/a %
Wei Lefu	n/a	0	n/a	n/a %
He Shurong	n/a	0	n/a	n/a %
Yang Shengniu	n/a	0	n/a	n/a %
Directors and executive officers as a group persons	132,942,733	0	132,942,733	85.8 %
<b>5% or more Beneficial Owners</b>				
Gansu Yasheng Salt Chemical Industrial Group, Ltd (3)	121,842,733	0	121,842,733	78.6 %
Gansu Tiaoshan Agriculture Industrial Commerce Group, Ltd (5)	8,000,000	0	8,000,000	5.1 %

(1) Based on 155,097,355 shares of our common stock outstanding as of Dec. 31, 2013.

(2) Unless otherwise indicated, the business address of each of our directors and executive offices is Yasheng Mansion, 105 Qin'an Road, Lanzhou, Gansu, China.

(3) Represents 121,842,733 shares owned by Gansu Yasheng Salt Chemical Industrial Group for which Mr. Dong serves as legal representative and has voting control.

(4) The address for this beneficial owner is 805 Veterans Blvd., Suite 228, Redwood City, California 94063.

(5) Represents 8,000,000 shares owned by Gansu Tiaoshan Agriculture Industrial Commerce Group, Ltd which Mr. Luo Sheng Jing serves as legal representative and has voting control.

### Change in Control

We are unaware of any contract, or other arrangement or provision of our Articles of Incorporation, the operation of which may at any subsequent date result in a change in control of our Company.

## ITEM 13 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Related Transactions

During the past two years, we have not been involved in any transaction in which we were a participant and the amount involved exceeded \$120,000, and in which any related person had or will have a direct or indirect material interest.

### Parent

Gansu Yasheng is our parent company and controls us by its ownership of approximately 78% of our voting securities. Many of the directors of Gansu Yasheng also serve as our directors. Messrs. X. Wang, D. Wang, L. Wei and S. Yang and Ms. He each received \$12,000 paid by Gansu Yasheng per year for serving as our employees or employees of our subsidiaries.

### Director Independence

In making independence determinations, the Board of Directors observes all criteria for independence established by the SEC and other governing laws and regulations. The Board has determined that to be considered independent, a director may not have any direct or indirect material relationships with the Company. In making a determination of whether a material relationship exists, the Board considers all relevant facts and circumstances, including but not limited to the director's commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships.

Consistent with these considerations, the Board has reviewed all relationships and material transactions between the Company and the members of the Board and their respective affiliated companies and has affirmatively determined that the non-management directors below are independent:

Zhang Xinmin, Liu Darong, Wei Tingwu, Zhang Baoquan, Wang Anxue

None of the non-management directors conducted any transactions or had any relationships with us in 2013.

None of the non-management directors receives any fees from us other than those received in his or her capacity as a director.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

### Independent Audit Fees

**Audit Fees** . Our auditors for the years ended December 31, 2013 and 2012 were Gansu Hongxin, Certified Public Accountants Co., Ltd., Lanzhou, China. The aggregate fees paid for the annual audit of financial statements included in our Annual Report for the year ended December 31, 2013 and the review of our quarterly reports for such year amounted to approximately RMB \$1,300,000. The aggregate fees paid for the annual audit of financial statements included in our Annual Report for the year ended December 31, 2012 and the review of our quarterly reports for such year, amounted to approximately RMB \$1,250,000.

**Audit Related Fees** . For the years ended December 31, 2013 and December 31, 2012, we paid \$0 and \$0, respectively, to Gansu Hongxin for other audit related fees.

**Tax Fees** . For the years ended December 31, 2013 and December 31, 2012, we paid \$0 and \$0, respectively, to Gansu Hongxin for tax related fees.

**All Other Fees** . For the years ended December 31, 2013 and December 31, 2012, we paid \$0 and \$0, respectively, to Gansu Hongxin for all other fees.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES. - continued**

The above-mentioned fees are set forth as follows in tabular form:

	2013	2012
		RMB
Audit Fees	RMB \$1,300,000	\$1,250,000
Audit Related Fees	\$ -0-	\$ -0-
Tax Fees	\$ -0-	\$ -0-
All Other Fees	\$ -0-	\$ -0-

There have been no non-audit services provided by our independent accountant for the year ended December 31, 2011.

**Pre-Approval Policies and Procedures**

All audit and non-audit services performed by our auditors must be approved in advance by our audit committee and our Board to ensure that such services do not impair the auditor's independence from us. Our Board has approved all audit and non-audit services provided by the independent auditors for the fiscal year ended December 31, 2013.

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1)	Financial Statements	
	Report of Independent Registered Public Accounting Firm	F-1
	Consolidated Balance Sheet	F-2
	Consolidated Statements of Operations	F-3
	Consolidated Statement of Stockholders' Equity	F-4
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	Notes to Consolidated Financial Statements	F-7
(a)(2)	Schedules .	
	All schedules have been omitted because they are not required, not applicable, or the information is otherwise set forth in the consolidated financial statements or the notes thereto.	
(a)(3)	Exhibits .	
	The information required by this Item is set forth in the section of this Annual Report entitled "EXHIBIT INDEX" and is incorporated herein by reference.	

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### YASHENG GROUP

Dated: March 15, 2014

By: /s/ Dong Ye

Dong Ye  
Chief Executive Officer (Principal Executive  
Officer)

Dated: March 15, 2014

By: /s/ Zhuang Hai Yun

Zhuang Hai Yun  
Chief Financial Officer and Director



In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 15, 2014

By : /s/ Wang Deng Fu

Wang Deng Fu  
Director

Dated: March 15, 2014

By: /s/ Mei Ping Wu

Mei Ping Wu  
Director

Dated: March 15, 2014

By: /s/ Wang Xitian

Wang Xitian  
Director

Dated: March 15, 2014

By: /s/ He Shurong

He Shurong  
Director

Dated: March 15, 2014

By: /s/ Wei Lefu

Wei Lefu  
Director

Dated: March 15, 2014

By: /s/ Yang Shengniu

Yang Shengniu  
Director

Dated: March 15, 2014

By: /s/ Wei Tingwu

Wei Tingwu  
Director

Dated: March 15, 2014

By: /s/ Yang Baoquan

Yang Baoquan  
Director

Dated: March 14, 2014

By: /s/ Zhang Zinmin

Zhang Xinmin  
Director

Dated: March 14, 2014

By: /s/ Liu Darong

Liu Darong  
Director

Dated: March15, 2014

By: /s/ Wang Anxue

Wang Anxue  
Director



## EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Acquisition By and Between Nicolas Investment Company, Inc, and Yasheng Group dated June 13, 2004 (1)
3.1	Articles of Incorporation of YaSheng Group (2)
3.2	Amended and Restated Bylaws of YaSheng Group dated September 24, 2010 (3)
31.1	<a href="#">Certifications of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act.*</a>
31.2	<a href="#">Certifications of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act.*</a>
32.1	<a href="#">Certifications of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.*</a>
32.2	<a href="#">Certifications of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.*</a>
99.1	Charter of the Audit Committee (4)
31.2	Charter of the Compensation Committee (4)
32.1	Charter of the Corporate Governance and Nominating Committee (4)

\* Filed herewith

- (1) Incorporated by reference to Form 8-K filed with the SEC on June 18, 2004
- (2) Incorporated by reference to Form 8-K filed with the SEC on July 16, 2004
- (3) Incorporated by reference to Form 8-K filed with the SEC on October 18, 2010
- (4) Incorporated by reference to Form 8-K filed with the SEC on October 14, 2010
- (4) Incorporated by reference to Form 8-K filed with the SEC on October 14, 2010
- (4) Incorporated by reference to Form 8-K filed with the SEC on October 14, 2010

**YASHENG, GROUP AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2013**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Yasheng Group:

We have audited the accompanying consolidated balance sheets of Yasheng Group and its subsidiaries (the “Company”) as of December 31, 2013, 2012 and 2011, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Yasheng Group and its subsidiaries as of December 31, 2013, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Gansu Hongxin Certified Public Accountants Co., Ltd.  
Lanzhou, China  
March 7, 2014

**YASHENG GROUP**  
**CONSOLIDATED BALANCE SHEETS**

	<i>Year Ended December 31,</i>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	11,337,958	10,980,384	10,714,391
Accounts receivable, net	103,061,683	91,880,065	80,435,935
Inventories	318,980,143	227,294,252	140,493,163
Prepaid and other current assets	4,400,112	3,962,855	4,276,757
<b>Total current assets</b>	<b>437,779,896</b>	<b>334,117,556</b>	<b>235,920,245</b>
Equity and other investments	210,703	204,380	203,880
Property, plant and equipment, net	848,678,908	785,135,358	762,293,032
Construction in progress	7,083,472	7,488,107	7,296,943
Intangible assets, net	1,057,082,947	1,033,037,846	1,051,789,820
<b>Total assets</b>	<b>2,350,835,926</b>	<b>2,159,983,247</b>	<b>2,057,503,921</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable and accrued expenses	31,495,004	25,058,592	41,030,878
Short term loans	6,560,711	9,545,780	13,014,014
VAT Tax payable	789,243	828,517	962,005
Current portion of long term debt	4,431,287	4,930,826	6,400,318
Other current liabilities	685,982	726,773	779,448
<b>Total current liabilities</b>	<b>43,962,227</b>	<b>41,090,488</b>	<b>62,186,663</b>
Long term debt	-	-	2,283,845
Long term payable	24,573,824	28,124,436	33,970,092
<b>Total liabilities</b>	<b>68,536,051</b>	<b>69,214,924</b>	<b>98,440,600</b>
Stockholders' equity:			
Common stock, US\$1.00 par value			
800,000,000 shares authorized			
155,097,355 shares issued and outstanding	155,097,355	155,097,355	155,097,355
Accumulated other comprehensive income	443,442,989	388,404,930	383,117,150
Retained earnings	1,683,759,531	1,547,266,038	1,420,848,816
<b>Total stockholders' equity</b>	<b>2,282,299,875</b>	<b>2,090,768,323</b>	<b>1,959,063,321</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>2,350,835,926</b>	<b>2,159,983,247</b>	<b>2,057,503,921</b>

The accompanying notes are an integral part of these consolidated financial statements.

**YASHENG GROUP**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<i>Year Ended December 31,</i>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net sales	1,011,323,630	993,102,745	949,131,434
Cost of goods sold	<u>867,845,745</u>	<u>859,918,076</u>	<u>827,526,283</u>
Gross profit	143,477,885	133,184,669	121,605,152
Operating expenses:			
Sales and marketing	2,009,990	1,944,354	1,773,217
General and administrative	<u>4,725,345</u>	<u>4,598,557</u>	<u>4,211,653</u>
Total operating expenses	6,735,335	6,542,911	5,984,869
Operating profit	136,742,550	126,641,758	115,620,282
Interest expense	937,163	1,110,340	2,171,004
Other income (expense) □	688,106	885,804	687,854
Income before income tax expense	136,493,493	126,417,222	114,137,133
Income tax expense			
Net income	<u>136,493,493</u>	<u>126,417,222</u>	<u>114,137,133</u>
Basic earnings per share	0.88	0.82	0.74
Weighted average number of shares	155,097,355	155,097,355	155,097,355

The accompanying notes are an integral part of these consolidated financial statements.

**YASHENG GROUP**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	<b>Common Stock</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total</b>
Balance as of December 31, 2010	<b>155,097,355</b>	<b>1,306,711,683</b>	<b>291,678,383</b>	<b>1,753,487,421</b>
Net income		114,137,133		114,137,133
Foreign currency translation			91,438,767	91,438,767
Balance as of December 31, 2011	<b>155,097,355</b>	<b>1,420,848,816</b>	<b>383,117,150</b>	<b>1,959,063,321</b>
Net income		126,417,222		126,417,222
Foreign currency translation			5,287,780	5,287,780
Balance as of December 31, 2012	<b>155,097,355</b>	<b>1,547,266,038</b>	<b>388,404,930</b>	<b>2,090,768,323</b>
Net income		136,494,493		136,493,493
Foreign currency translation			55,038,059	55,038,059
Balance as of December 31, 2013	<b>155,097,355</b>	<b>1,683,759,531</b>	<b>443,442,989</b>	<b>2,282,299,875</b>

The accompanying notes are an integral part of these consolidated financial statements.



**YASHENG GROUP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<i>Year Ended December 31,</i>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>			
Net income	136,494,493	126,417,222	114,137,133
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,069,959	10,928,610	9,284,717
Allowance for doubtful accounts	437,993	590,704	15,839
Changes in assets and liabilities:			
Accounts receivable	(8,777,416)	(11,837,759)	(301,581)
Inventories	(84,654,827)	(86,456,869)	(31,613,779)
Prepaid and other current assets	(314,671)	324,380	493,070
Accounts payable	(5,024,141)	(16,060,984)	(5,831,419)
Tax payables	(64,903)	(135,845)	(76,905)
Accrued expenses and other current liabilities	(72,237)	(66,416)	(71,225)
<b>Net cash provided by operating activities</b>	<b>51,093,250</b>	<b>23,703,043</b>	<b>86,020,011</b>
<b>Investing activities:</b>			
Purchase of assets	(43,779,419)	(11,121,978)	(77,638,755)
Investments			
<b>Net cash used in investing activities</b>	<b>(43,779,419)</b>	<b>(11,121,978)</b>	<b>(77,638,755)</b>
<b>Cash flows from financing activities:</b>			
Issuance of common stock			
Dividends paid			
Payment on land lease	(4,420,607)	(5,928,885)	5,297,946
Increase (decrease) in debt	(3,932,423)	(7,274,734)	(4,641,493)
<b>Net cash provided by financing activities</b>	<b>(8,353,030)</b>	<b>(13,203,619)</b>	<b>9,939,439</b>
Effect of exchange rate change on cash and cash equivalents	1,396,772	888,547	2,155,825
Net increase (decrease) in cash and cash equivalents	357,574	265,993	597,641
Cash and cash equivalents at beginning of period	10,980,384	10,714,391	10,116,750
Cash and cash equivalents at end of period	<u>11,337,958</u>	<u>10,980,384</u>	<u>10,714,391</u>
<b>Supplemental disclosures:</b>			
Cash paid for interest	937,163	1,110,340	2,171,004
Cash paid for income taxes			

The accompanying notes are an integral part of these consolidated financial statements.

**YASHENG GROUP**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<i>Year Ended December 31,</i>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income	<u>136,493,493</u>	<u>126,417,222</u>	<u>114,137,133</u>
Other comprehensive income:			
Foreign currency translation adjustment	<u>55,038,059</u>	<u>5,287,780</u>	<u>91,438,767</u>
Total other comprehensive income	<u>55,038,059</u>	<u>5,287,780</u>	<u>91,438,767</u>
<b>Total comprehensive income</b>	<b><u>191,531,552</u></b>	<b><u>131,705,002</u></b>	<b><u>205,575,899</u></b>

The accompanying notes are an integral part of these statements.

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

1. Organization and nature of operations

Yasheng Group (“The Company”) is a California corporation with primary operations in China. The Company designs, develops, manufactures and markets high-quality farming and sideline products; chemical materials and products; textiles; construction materials; and livestock and poultry. It also designs, develops and markets new technologies related to agriculture and genetic biology.

2. Summary of significant accounting policies

(a) Accounting standards

The consolidated financial statements have been prepared on a historical cost basis to reflect the financial position and results of operations of the Company in accordance with accounting principles generally accepted in the United States of America.

(b) Fiscal year

The Company’s fiscal year ends on the 31st of December of each calendar year.

(c) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated.

(d) Use of estimates

The Company’s discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

2. Summary of significant accounting policies - *continued*

(e) Revenue recognition

We mainly sell food products. We recognize revenue when title and risk of loss are transferred to our customers. This generally happens upon delivery of our product.

(f) Shipping and handling costs

The Company records outward freight, purchasing and receiving costs in selling expenses; inspection costs and warehousing costs are recorded as general and administrative expenses.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits held by banks, and securities with maturities of three months or less. The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are composed primarily of investments in money market accounts stated at cost, which approximates fair value.

(h) Inventories

Inventories are recorded using the weighted average method and are valued at the lower of cost or market.

(i) Accounts receivable, net

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects the Company's best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, the Company considers many factors in estimating its general allowance, including aging analysis, historical bad debt records, customer credit analysis and any specific known troubled accounts.

(j) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is calculated on a straight-line basis over the life of the asset or the term of the lease, whichever is shorter. Major renewals and betterments are capitalized and depreciated; maintenance and repairs that do not extend the life of the respective assets are charged to expense as incurred. Upon disposal of assets, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciation related to property and equipment used in production is reported in cost of sales. Property and equipment are depreciated over their estimated useful lives as follows:

Buildings and improvements	20 - 40 years
Farming facilities	10 years
Machinery and equipment	7 years
Transportation and other facilities	3 - 15 years

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

2. Summary of significant accounting policies - *continued*

Long-term assets of the Company are reviewed annually to assess whether the carrying value has become impaired, according to the guidelines established in Statement of Accounting Standards (SFAS) No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." The Company also evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. No impairment of assets was recorded in the periods reported.

(k) *Intangible assets*

Intangible assets consist of land use rights and are recorded at cost. Under PRC's current property rights regime, use rights for specified periods (e.g., 40 to 70 years) can be obtained from the state through the up-front payment of land use fees. The fees are determined by the location, type and density of the proposed development. This separation of land ownership and use rights allows the trading of land use rights while maintaining state ownership of land. The Company has over 300,000 acres of farming land that are utilized for grazing, cultivation, and reclamation, of which 65,000 acres are under cultivation using the latest scientific technologies to produce a wide variety of agricultural products.

Land use rights are amortized over 70 years using the straight-line method.

(k) Impairment of long-lived assets

The carrying amounts of long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

(l) Investments

Investments consist primarily of less than 20% equity positions in non-marketable securities and are recorded at lower of cost or market.

(m) **Foreign currency translation**

The accompanying financial statements are presented in United States (US) dollars. The functional currency is the Renminbi (RMB). The financial statements are translated into US dollars from RMB at year-end exchange rates for assets and liabilities, and weighted average exchange rates for revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred.

Gains and losses resulting from foreign currency translation are recorded in a separate component of shareholders' equity. Foreign currency translation adjustments are included in accumulated other comprehensive income in the consolidated statements of shareholders' equity for the years presented.

RMB is not freely convertible into the currency of other nations. All such exchange transactions must take place through authorized institutions. There is no guarantee the RMB amounts could have been, or could be, converted into US dollars at rates used in translation.

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

2. Summary of significant accounting policies - *continued*

(n) Income taxes

As a state-owned agricultural enterprise, the Company and all of its agricultural subsidiaries are exempted from enterprise income taxes with approval from the Gansu Provincial Bureau of Local Taxation. The only non-agricultural subsidiary, Baiyin Cement Plant, has suffered net loss for the three years shown and therefore has no applicable taxable income. Because of the uncertainty of future profits, no deferred tax assets have been set up at this time.

(o) Earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share are computed using the weighted average number of common and, if dilutive, potential common shares outstanding during the year. The Company has no potentially dilutive shares for the periods shown.

(p) Economic and Political Risks

The Company faces a number of risks and challenges as a result of having primary operations and markets in the PRC. Changing political climates in the PRC could have a significant effect on the Company's business.

(q) Advertising expense

The Company expenses advertising as incurred. Advertising expenses amounted to \$754,294, \$731,962 \$711,185, for year 2013, 2012, and 2011, respectively.

(r) Comprehensive income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on the accompanying consolidated balance sheets, consists of mainly the cumulative foreign currency translation adjustment.

(s) Value added tax (VAT)

Value added tax is a consumption tax levied on value added. While the standard VAT rate in PRC is 17%, the Company's agricultural subsidiaries enjoy a reduced VAT rate of 4%.

(t) Recently Issued Accounting Standards

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

2. Summary of significant accounting policies - *continued*

*Recently adopted accounting guidance*

In December 2011, the Financial Accounting Standards Board (“FASB”) issued guidance enhancing disclosure requirements about the nature of an entity’s right to offset and related arrangements associated with its financial instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed, and the related net exposure. In January 2013, the FASB clarified that the scope of this guidance applies to derivatives, repurchase agreements, and securities lending arrangements that are either offset or subject to an enforceable master netting arrangement, or similar agreements. We have adopted this new guidance.

In February 2013, the FASB issued guidance on disclosure requirements for items reclassified out of accumulated other comprehensive income (“AOCI”). This new guidance requires entities to present (either on the face of the income statement or in the notes to financial statements) the effects on the line items of the income statement for amounts reclassified out of AOCI. We have adopted this new guidance.

In September 2011, the Financial Accounting Standards Board (“FASB”) issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. We adopted this new guidance.

*Recent accounting guidance not yet adopted*

In March 2013, the FASB issued guidance on a parent’s accounting for the cumulative translation adjustment upon de-recognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The new guidance will be effective for us beginning December 31, 2014.. We do not anticipate material impacts on our financial statements upon adoption.

(t) Fair Value of Financial Instruments

The carrying amounts of accounts receivable, accounts payable, other liabilities, and short-term borrowings approximate their fair value due to the short-term maturity of these instruments. Long term debt approximates fair value as its interest rates approximates market interest rates .

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

3. Accounts receivable

Accounts receivable are recognized and carried at original invoice amount outstanding less an allowance for doubtful accounts. The activity in the Accounts Receivable was as follows:

<u>December 31st</u>	<u>Gross Balance at end of year</u>	<u>Allowance for doubtful accounts</u>	<u>Net Balance at end of year</u>
2011	84,660,493	4,224,559	80,435,935
2012	96,715,857	4,835,793	91,880,065
2013	108,335,469	5,273,786	103,061,683

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balances. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence. Activity in the allowance for doubtful accounts was as follows:

<u>Year Ended December 31st</u>	<u>Beginning Balance</u>	<u>Charged to costs and expenses</u>	<u>Write offs and other</u>	<u>Ending Balance</u>
2011	4,004,216	220,343		4,224,559
2012	4,224,559	611,234		4,835,793
2013	4,835,793	437,993		5,273,786

4. Inventories

The major classes of inventory: raw materials, packaging materials, products in process, finished goods, stocks, low-value consumable goods, materials in transit as well as others.

The following is a breakdown of the major categories of inventories.

Breakdown of Inventories

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Raw material	64,583,540	46,131,100	27,582,045
Finished Goods	167,437,526	119,049,524	74,191,560
Low-value consumable goods	43,296,466	30,926,047	19,158,243
Packaging material	28,712,685	20,509,061	12,818,223
Maintenance material	14,949,927	10,678,519	6,743,092
Total for the year	<u>318,980,143</u>	<u>227,294,252</u>	<u>140,493,163</u>

5. Property, plant and equipment & depreciation

The major classes of property, plant and equipment include building and improvements, machinery and equipment, transportation facilities, agricultural facilities, etc. They are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following is a breakdown of fixed assets and accumulated depreciation by fiscal year.



**Yasheng Group**  
**Notes to Consolidated Financial Statement**

5. Property, plant and equipment & depreciation – *continued*

<u>Property, plant and equipment</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Buildings and improvements	115,517,239	103,140,392	100,136,303
Farming facilities	105,667,488	94,345,971	91,598,030
Machinery and equipment	13,900,573	12,411,226	12,049,734
Transportation and other facilities	335,920,143	299,928,699	291,192,912
Windbreak and Sand-break Trees	<u>381,277,766</u>	<u>365,843,411</u>	<u>355,187,778</u>
Total	<u>952,283,209</u>	<u>875,669,700</u>	<u>850,164,757</u>
<u>Accumulated Depreciation</u>	<u>103,604,301</u>	<u>90,534,342</u>	<u>87,871,725</u>
Total	<u>848,678,908</u>	<u>785,135,358</u>	<u>762,293,032</u>

The Company invests every year in windbreaks and sand-breaks to provide shelterbelts for many of the farms located near the Gobi Desert. These investments are recorded under property, plant and equipment above. The following is a more detailed breakdown of the windbreaks and sand breaks and accumulated depreciation by fiscal year.

<u>Windbreak and Sand-break Trees</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Wind breaks and sand breaks capitalized (trees)	304,670,258	294,353,892	280,366,880
Additional Long Term Costs Capitalized	81,673,973	71,489,719	74,820,908
Total	386,344,231	365,843,611	355,187,788
Accumulated Depreciation	(5,066,465)	(4,685,791)	(4,335,627)
Net Wind Breaks and Sand Breaks	<u>381,277,766</u>	<u>361,157,820</u>	<u>350,852,161</u>
Depreciation for year	<u>380,674</u>	<u>350,164</u>	<u>330,386</u>

6. China contribution plan

The Company's subsidiaries in China participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Company's subsidiaries to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly basic compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Company has no further commitments beyond its monthly contribution.

7. Profit appropriation

Pursuant to the laws applicable to China's Foreign Investment Enterprises, each of the Company's subsidiaries in China must make appropriations from its after-tax profit to non-distributable reserve funds as determined by the Board of Directors. These reserve funds include a (i) general reserve, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The general reserve fund requires annual appropriations of 10% of after-tax profit (as determined under PRC GAAP) until these reserves equal 50% of the amount of paid-in capital; the other fund appropriations are at the Company's discretion.



**Yasheng Group**  
**Notes to Consolidated Financial Statement**

8. Concentration of risks

The operations of the Company are substantially located in the PRC and accordingly, investing in the shares of the Company is subject to among others, the PRC's political, economic and legal risks.

9. Income taxes

The Company and all of its agricultural subsidiaries are exempt from income taxes in the PRC.

10. Debt

The Company obtains secured lending from the banks using the following two types of arrangements, collateral and guarantee. Collateral is loans secured against the assets of the Yasheng Group, while guarantee is loans provided with the guarantee from a third party.

(a) Long term debt

	Collateral	Guarantee	Total	Maturity
2011	1,083,772	1,200,073	2,283,845	3 years
2012	0	0	0	N/A
2013	0	0	0	N/A

(b) Current portion of long term debt

	Collateral	Guarantee	Total	Interest rate
2011	4,395,455	2,004,863	6,400,318	7.75 %
2012	3,451,600	1,479,226	4,930,826	7.25 %
2013	3,051,600	1,379,687	4,431,287	7.25 %

11. Employee benefit plans

The Company provides the following benefits for all employees:

A. Employee Welfare Fund: An amount equal to 14% of payroll is set aside by the Company for standard employee benefits. This fund is managed and controlled by the Company. All required payments current.

B. Open Policy Pension: The Company pays to national and community insurance agents an amount equal to 20% of payroll. This insurance continues to cover the employee subsequent to retirement.

C. Unemployment Insurance: The Company pays to the national employment administrative entities an amount equal to 1% of payroll. Any dismissed employee thereby receives a specified amount of family-support funds for a designated period.

D. Housing Surplus Reserve: The Company pays to the national housing fund administrative entities an amount equal to 10% of payroll for deposit into the employees' future housing allowance accounts.

The aforesaid items are for employee's benefits and should be accounted for as the Company's expenses.

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

11. Employee benefit plans - *continued*

E. China contribution plan.

The Company's subsidiaries in China participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Company's subsidiaries to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly basic compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Company has no further commitments beyond its monthly contribution.

12. Stockholders' Equity

The Company issued no new shares during the years 2013 and 2012.

13. Restated Financial Statements, (2013 and 2012)

The original financial statements for the year ended 12-31-2011 and 2010 capitalized all of the wind break tree costs (originally stated as *Other Long Term Assets*) and amortized them over 70 years. The restated financial statements have expensed the maintenance portion of the costs in the year occurred and only capitalized the long term portion. The balance sheet has also moved the long term assets (wind break trees) into the property plant and equipment. The chart below shows the changes made to the financial statements in total assets, net income and earnings per share.

Net Sales	2013	2012
Construction material	6,837,294	6,752,106
Farming	1,004,486,336	986,350,639
Total	1,011,323,630	993,102,745

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

14. Segment information

In its operation of the business, management, including upper management and the board of director's, reviews certain information as it relates to the Company as a whole. The information most used and useful is the profitability by subsidiary. Accordingly, these are the segments which are presented in the tables below.

Entity level segment

2013 Sales Breakdown by Subsidiary Unit: Dollar

Subsidiaries	Net Sales	Cost of Sales	Gross Profit
Gansu Jinta Hengsheng Agricultural Development Co., Ltd.	146,961,967	19,955,514	27,566,449
Gansu Hongtai Agricultural Technology Co., Ltd.	199,538,728	173,622,607	25,963,203
Gansu Jinta Xingsheng Industrial Co., Ltd.	151,820,821	129,222,545	22,825,132
Gansu Jinta Yongsheng Agricultural Development Company.	149,208,966	128,082,675	21,277,389
Gansu Jinta Yuantai Commercial Trading Co., Ltd.	1,935,801	1,399,743	555,397
Gansu Tiaoshan Agricultural-Industrial-Commercial Group Co., Ltd	333,325,391	295,685,000	36,301,016
Gansu Xiaheqing Industrial Co., Ltd.	28,531,956	19,877,661	8,989,299
Total	<u>1,011,323,630</u>	<u>867,845,745</u>	<u>143,477,886</u>

2012 Sales Breakdown by Subsidiary Unit: Dollar

Subsidiaries	Net Sales	Cost of Sales	Gross Profit
Gansu Jinta Hengsheng Agricultural Development Co., Ltd.	144,363,425	118,767,836	25,595,589
Gansu Hongtai Agricultural Technology Co., Ltd.	196,010,538	171,903,571	24,106,967
Gansu Jinta Xingsheng Industrial Co., Ltd.	149,136,366	127,943,114	21,193,252
Gansu Jinta Yongsheng Agricultural Development Company.	146,570,694	126,814,530	19,756,164
Gansu Jinta Yuantai Commercial Trading Co., Ltd.	1,901,573	1,385,884	515,689
Gansu Tiaoshan Agricultural-Industrial-Commercial Group Co., Ltd	327,092,687	293,422,289	33,670,398
Gansu Xiaheqing Industrial Co., Ltd.	28,027,462	19,680,852	8,346,610
Total	<u>993,102,745</u>	<u>859,918,076</u>	<u>133,184,669</u>

2011 Sales Breakdown by Subsidiary Unit: Dollar

Subsidiaries	Net Sales	Cost of Sales	Gross Profit
Gansu Jinta Hengsheng Agricultural Development Co., Ltd.	137,015,766	114,101,568	22,914,198
Gansu Hongtai Agricultural Technology Co., Ltd.	191,259,862	165,139,529	26,120,333
Gansu Jinta Xingsheng Industrial Co., Ltd.	145,400,270	123,027,461	22,372,809
Gansu Jinta Yongsheng Agricultural Development Company.	139,125,301	121,556,456	17,568,845
Gansu Jinta Yuantai Commercial Trading Co., Ltd.	1,807,821	1,237,447	570,374
Gansu Tiaoshan Agricultural-Industrial-Commercial Group Co., Ltd	307,831,487	282,561,989	25,269,498
Gansu Xiaheqing Industrial Co., Ltd.	26,690,927	19,011,829	7,679,098
Total	<u>949,131,434</u>	<u>827,526,283</u>	<u>121,605,151</u>

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

15. Segment information - *continued*

Other segments that are considered are agriculture, livestock and biotechnology/industrial. Below is an explanation of the three segments and Schedules that details each of these three segments.

**Agriculture**

Agriculture is our largest segment accounting for 99.11% of our sales. This is spread over several of our entities. This segment includes over 30 agriculture products under the following six areas:

Field crops: Cotton, Corn, Barley, Wheat, Flaxseed, Hemp, Alfalfa

Vegetables: Onion, Potato, Beet, Pea

Fruit: Apple, Pear, Apricot

Specialty Crops: Hops, Wolfberry, Cumin, Hemp, Liquorices Root Seeds: Black Melon Seeds, sunflower Seeds, Corn Seed, Flax Seed, Hemp seeds

These also include processing the products and getting them to market.

**Livestock**

Our livestock segments increasing 12.5% per year. Livestock includes animal husbandry, animal food products. This includes chickens and eggs. Chicken operations include breeding and raising chickens, as well as processing live chickens into fresh, frozen and value-added chicken products and logistics operations to move products through the supply chain.

**Biotech/industrial**

This segment includes construction materials. It increased 1.8 % from 2012 to 2013. We have a concrete plant in Baiyin which produces the majority of our sales currently in construction materials.

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

15. Segment information - *continued*

Below is a three year comparison chart on these segments

<b>Year 2013</b>	Sales	Cost of	Gross	Gross %
Sales %	Profit	Profit		
Agriculture	1,002,407,738	859,673,849	142,733,889	14.24
Livestock	2,679,494	2,317,621	361,873	13.50
Biotech/Industrial	6,236,398	5,854,274	382,124	6.12
Total	<u>1,011,323,630</u>	<u>867,845,745</u>	<u>143,477,886</u>	<u>14.19</u>
<b>Year 2012</b>	Sales	Cost of	Gross	Gross %
Sales %	Profit	Profit		
Agriculture	985,234,394	852,673,583	132,560,811	13.45
Livestock	2,155,983	1,834,557	321,426	14.91
Biotech/Industrial	5,712,368	5,409,936	302,432	5.29
Total	<u>993,102,745</u>	<u>859,918,076</u>	<u>133,184,699</u>	<u>13.41</u>
<b>Year 2011</b>	Sales	Cost of	Gross	Gross %
Sales %	Profit	Profit		
Agriculture	941,481,904	820,322,622	121,159,282	12.87
Livestock	2,042,306	1,812,003	230,303	11.28
Biotech/Industrial	5,607,224	5,391,658	215,566	3.84
Total	<u>949,131,434</u>	<u>827,526,283</u>	<u>121,605,151</u>	<u>12.81</u>

16. Operating leases

The Company has no operating leases for the periods shown.

17. Earnings per share

The components of basic earnings per share are as follows:

	Years Ended December 31st,		
	2013	2012	2011
Net income available			
For common shareholders	136,493,493	126,417,222	114,137,133
Weighted average shares			
of common stock	155,097,355	155,097,355	155,097,355
Basic earnings per share	0.88	0.82	0.74

**Yasheng Group**  
**Notes to Consolidated Financial Statement**

18. Subsequent Events and new Subsidiaries

Angel Star Nutrition LLC

Dec 31, 2013 Angel Star Nutrition LLC -- a Delaware-based Limited Liability Company.

Yasheng Group and IBC will be co-owners of Angel Star Nutrition LLC, with each party holding a 50% stake in the venture. Mei P. Wu (President of Yasheng Group) will serve as CEO, while Steven P. White (President of Intermountain Brands Corporation) will serve as President. The purpose of the new venture is to produce powdered infant formula and other nutrition products for distribution worldwide.

Registration Authority: State of Delaware, entity number: 140012521

Legal Domicile: 2282 South President Drive., Suite F, West Valley, Utah 84120

The Company is actively seeking joint ventures to further its plan for growth. Below are three joint ventures currently in the due diligence phase.

Rouge Mountain Mining Group Corp (AZ)

On November 21, 2012 the Company formed Rouge Mountain Mining Group Corp. in Arizona. This subsidiary is an exploration stage company formed to develop the Company's mining claims in La Paz County, Arizona and to facilitate future joint ventures with other mining companies in the United States. This new subsidiary has no operations yet.

Lemco Yasheng LLC

The Company entered into a Letter of Intent dated November 1, 2012 with LEMCO Investments Limited, (the BVI and the UK), whereby both parties expressed an interest in forming a joint venture to exploring opportunities of mutual interest for the development of land-use and forestry conservation projects, including industrial agriculture, carbon emissions reductions and other forms of payments for environmental services.

On January 25, 2013 the Company formed Lemco Yasheng LLC to facilitate the joint venture once executed. The Company is still in its due diligence phase of the endeavor.

Yasheng Greenphil LLC

The Company entered into an agreement in September 2012 with Greenphil Agua-Culture & Hydroponics Holding, Inc (Manila, Philippines) and Greenphil Aqua-Culture & Hydroponics, LLC (California), where all parties expressed an interest in forming a joint venture to conduct business development in the Republic of the Philippines. This business will include aqua-culture and hydroponics, farming, mining and other projects.

On February 8, 2013 the Company formed Yasheng Greenphil LLC to facilitate the joint venture once executed. The Company is still in its due diligence phase of the endeavor.



**OFFICER'S CERTIFICATE  
PURSUANT TO SECTION 302**

**I, Dong Ye, certify that:**

1. I have reviewed this Annual Report on Form 10-K of YaSheng Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 15, 2014

By: /s/ Dong Ye

Dong Ye  
Chief Executive Officer  
(Principal Executive Officer)

**OFFICER'S CERTIFICATE  
PURSUANT TO SECTION 302**

**I, Zhuang Hai Yun, certify that:**

1. I have reviewed this Annual Report on Form 10-K of YaSheng Group;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 15, 2014

By: /s/ Zhuang Hai Yun

Zhuang Hai Yun  
(Principal Financial Officer)  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of YaSheng Group (the "Company") on Form 10-K for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 15, 2014

By: /s/ Dong Ye

Dong Ye  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of YaSheng Group (the "Company") on Form 10-K for the period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 15, 2014

By: /s/ Zhuang Hai Yun

Zhuang Hai Yun  
Chief Financial Officer  
(Principal Financial Officer)