

# YASHENG GROUP

## FORM 10-Q (Quarterly Report)

Filed 11/14/14 for the Period Ending 09/30/14

|             |   |
|-------------|---|
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| Telephone   | 650-363-8345  |
| CIK         | 0001123312  |
| Symbol      | HERB  |
| SIC Code    | 0100 - Agricultural Production-Crops                    |
| Industry    | Crops   |
| Sector      | Consumer/Non-Cyclical                                   |
| Fiscal Year | 12/31   |

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

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

Commission File Number:



**YaSheng Group**

(Exact name of registrant as specified in its charter)

**California**

(State or Other Jurisdiction of Incorporation or Organization)

**33-0788293**

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

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

(Address of Principal Executive Offices)

**94063**

(Zip Code)

**(650) 363-8345**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company)

Smaller reporting company

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

Yes  No

State issuer's revenues for its most recent fiscal year (12/31/13).\$ 1,011,323,630.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. We are a smaller reporting company as determined pursuant to Rule 12b-2 of the Securities and Exchange Act of 1934 and Regulation S-K thereunder because the public float of our common stock is less than \$75 million.

**(APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

**(APPLICABLE ONLY TO CORPORATE REGISTRANTS)**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date, 155,097,355 (9-30-14).

**YASHENG GROUP  
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## **PART I FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

#### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders Yasheng Group  
Redwood City, California

We have reviewed the accompanying condensed consolidated balance sheet of Yasheng Group and subsidiaries (the "Corporation") as of September 30, 2014, and the related condensed consolidated statements of income, stockholders' equity, and cash flows for the three month and nine month periods ended September 30, 2014 and 2013. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Yasheng Group and subsidiaries as of December 31, 2013, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended and in our report dated March 7, 2014 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/S/ Gansu Hongxin Certified Public Accountants Co.,  
Ltd.

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Lanzou, China  
November 7, 2014

**YASHENG GROUP**  
**Condensed Consolidated Balance Sheets (unaudited)**  
(In US Dollars)

|   | As of                 |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2014 | December 31,<br>2013 |
|   | (unaudited)           | (audited)            |
| <b>ASSETS</b>                               |                       |                      |
| Current assets:                             |                       |                      |
| Cash and cash equivalents                   | 13,502,763            | 11,337,958           |
| Accounts receivable, net                    | 103,487,144           | 103,061,683          |
| Inventories                                 | 362,762,433           | 318,980,143          |
| Prepaid and other current assets            | <u>4,071,046</u>      | <u>4,400,112</u>     |
| Total current assets                        | 483,823,386           | 437,779,896          |
| Equity and other investments                | 208,798               | 210,703              |
| Property, plant and equipment, net          | 878,766,757           | 848,678,908          |
| Construction in progress                    | 6,735,750             | 7,083,472            |
| Intangible assets, net                      | <u>1,053,310,059</u>  | <u>1,057,082,947</u> |
| Total assets                                | <u>2,422,844,750</u>  | <u>2,350,835,926</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                       |                      |
| Current liabilities:                        |                       |                      |
| Accounts payable and accrued expenses       | 28,610,256            | 31,495,004           |
| Short term loans                            | 5,526,209             | 6,560,711            |
| VAT Tax payable                             | 730,354               | 789,243              |
| Current portion of long term debt           | 3,709,282             | 4,431,287            |
| Other current liabilities                   | <u>627,315</u>        | <u>685,982</u>       |
| Total current liabilities                   | <u>39,203,416</u>     | <u>43,962,227</u>    |
| Long term payable                           | 21,930,083            | 24,573,824           |
| Total liabilities                           | 61,133,499            | 68,536,051           |
| 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          |
| Accumulated other comprehensive income      | 433,344,666           | 443,442,989          |
| Retained earnings                           | <u>1,773,269,230</u>  | <u>1,683,759,531</u> |
| Total stockholders' equity                  | <u>2,361,711,251</u>  | <u>2,282,299,875</u> |
| Total liabilities & stockholders' equity    | <u>2,422,844,750</u>  | <u>2,350,835,926</u> |

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

**YASHENG GROUP**  
**Condensed Consolidated Statements of Operations (unaudited)**  
(In US Dollars)

|                                   | For The Three Months Ended<br>September 30, |             |
|-----------------------------------|---|-------------|
|                                   | 2014  | 2013        |
| Net sales                         | 305,143,594                                 | 290,002,731 |
| Cost of goods sold                | 258,335,659                                 | 243,934,138 |
| Gross profit                      | 46,807,935                                  | 46,068,593  |
| Operating expenses:               |   |             |
| Sales and marketing               | 544,282                                     | 561,457     |
| General and administrative        | 1,353,764                                   | 1,370,639   |
| Total operating expenses          | 1,898,046                                   | 1,932,097   |
| Operating profit                  | 44,909,889                                  | 44,136,496  |
| Interest expense                  | -517,671                                    | 108,156     |
| Other income (expense) □          | 1,321,294                                   | 1,776       |
| Income before income tax expense  | 46,748,854                                  | 44,030,116  |
| Income tax expense                |   |             |
| Net income                        | 46,748,854                                  | 44,030,116  |
| Basic earnings per share          | 0.30  | 0.28        |
| Weighted average number of shares | 155,097,355                                 | 155,097,355 |

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

**YASHENG GROUP**  
**Condensed Consolidated Statements of Operations (unaudited)**  
(In US Dollars)

|                                   | For The Nine Months Ended September |                          |
|-----------------------------------|-------------------------------------|--------------------------|
|                                   | 30,                                 |                          |
|                                   | <u>2014</u>                         | <u>2013</u>              |
| Net sales                         | 708,579,192                         | 687,902,965              |
| Cost of goods sold                | 616,356,961                         | 597,331,810              |
| Gross profit                      | <u>92,222,231</u>                   | <u>90,571,155</u>        |
| Operating expenses:               |                                     |                          |
| Sales and marketing               | 1,295,418                           | 1,286,072                |
| General and administrative        | <u>3,084,991</u>                    | <u>3,063,340</u>         |
| Total operating expenses          | 4,380,409                           | 4,349,413                |
| Operating profit                  | 87,841,822                          | 86,221,742               |
| Interest expense                  | 150,397                             | 747,415                  |
| Other income (expense) □          | 1,818,274                           | 667,015                  |
| Income before income tax expense  | 89,509,699                          | 86,141,343               |
| Income tax expense                |                                     |                          |
| Net income                        | <u><u>89,509,699</u></u>            | <u><u>86,141,343</u></u> |
| Basic earnings per share          | 0.58                                | 0.56                     |
| Weighted average number of shares | 155,097,355                         | 155,097,355              |

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



**YASHENG GROUP**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**  
(In US Dollars)

|   | For The Nine Months Ended September |                    |
|---|-------------------------------------|--------------------|
|   | 30,                                 |                    |
|   | <u>2014</u>                         | <u>2013</u>        |
| <b>Cash flows from operating activities:</b>                                      |                                     |                    |
| Net income  | 89,509,699                          | 86,141,343         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                    |
| Depreciation and amortization   | 9,651,955                           | 7,724,320          |
| Allowance for doubtful accounts   | 505,297                             | 323,808            |
| Changes in assets and liabilities:  |                                     |                    |
| Accounts receivable   | -10,126,183                         | -6,489,145         |
| Inventories   | -43,873,748                         | -62,667,940        |
| Prepaid and other current assets  | 289,302                             | -229,507           |
| Accounts payable  | -2,594,817                          | -4,592,510         |
| Tax payables  | -51,757                             | -53,265            |
| Accrued expenses and other current liabilities                                    | -57,779                             | -52,708            |
| <b>Net cash provided by operating activities</b>                                  | <u>43,251,969</u>                   | <u>20,104,397</u>  |
| Cash flows from investing activities:   |                                     |                    |
| Purchase of assets  | -36,905,532                         | -12,920,956        |
| Investments   |                                     |                    |
| <b>Net cash used in investing activities</b>                                      | <u>-36,905,532</u>                  | <u>-12,920,956</u> |
| Cash flows from financing activities:   |                                     |                    |
| Issuance of common stock  |                                     |                    |
| Dividends paid  |                                     |                    |
| Payment on land lease   | -2,421,667                          | -4,059,712         |
| Increase (decrease) in debt   | -1,657,173                          | -3,625,446         |
| <b>Net cash provided by financing activities</b>                                  | <u>-4,078,840</u>                   | <u>-7,685,158</u>  |
| Effect of exchange rate change on cash and cash equivalents                       | -102,792                            | 760,778            |
| <b>Net increase (decrease) in cash and cash equivalents</b>                       | <u>2,164,805</u>                    | <u>259,060</u>     |
| Cash and cash equivalents at beginning of period                                  | <u>11,337,958</u>                   | <u>10,980,384</u>  |
| Cash and cash equivalents at end of period  | <u>13,502,763</u>                   | <u>11,239,444</u>  |
| Supplemental Disclosures:   |                                     |                    |
| Cash paid for interest  | 150,397                             | 747,415            |
| Cash paid for income taxes  |                                     |                    |

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

YASHENG GROUP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**1. Basis of Presentation, Organization and Business**

The accompanying unaudited condensed consolidated financial statement (“statements”) have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for the period are not necessarily indicative of the results that may be expected for the full year. These statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in Yasheng Group's Form 10-K. The statements are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). All necessary adjustments have been made to present the financial statements in accordance with US GAAP.

Yasheng Group (“The Company”) is a California corporation with primary operations in China. The Company produces and markets high-quality farming and sideline products including livestock and poultry. It also designs, develops and markets new technologies related to agriculture.

Product offerings include 30+ major agriculture goods under 6 major product categories which include: field crops: cotton, corns, barley, hemp, wheat, flax, alfalfa; vegetables: onions, potatoes, beet, and peas; fruit trees: apples, pears, apricots; specialty crops: hops, wolfberries, cumin, liquorices; seeds: black melon seeds, sunflower seeds, corn seeds, hemp seeds, flax seeds; poultry: eggs.

Yasheng sells its products through an extensive nationwide sales and distribution network covering 19 provinces and over 118 cities in China. Products are also sold directly to food processors as well as processed internally by the company and then resold to supermarkets or other distributors, or further processed for retail food distribution. The Company also sells many of its products fresh within Gansu province as well as nationally to food processors and distributors, or directly to supermarkets. Customers are based primarily in China and include national and international leading companies. Products are also sold as feed for livestock, ingredients for Chinese traditional medicines as well as other important ingredients in the food industry.

**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

YASHENG GROUP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**2. Summary of Significant Accounting Policies - *continued***

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.

(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 products.

(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  |

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.

YASHENG GROUP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

2. **Summary of Significant Accounting Policies - *continued***

|   | 09/30/2014     | 12/31/2013     |
|---|----------------|----------------|
| Buildings and improvements                      | \$ 120,137,929 | \$ 115,517,239 |
| Farming facilities                              | 109,894,188    | 105,667,488    |
| Machinery and equipment                         | 14,456,596     | 13,900,573     |
| Transportation                                  | 349,356,949    | 335,920,143    |
| Windbreak and Sand-break Trees                  | 398,177,353    | 381,277,766    |
| Total   | 992,023,014    | 952,283,209    |
| Less: Accumulated Depreciation and amortization | 113,256,256    | 103,604,301    |
| Net   | \$ 878,766,757 | \$ 848,678,908 |

(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 agriculture land that are utilized for grazing, cultivation, and reclamation, of which 50,000 acres are under cultivation using the latest scientific technologies to produce a wide variety of agricultural products.

(l) 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.

(m) Investments

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

(n) 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 weighed 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.

(o) Income taxes

As an 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 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.

(p) 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.



YASHENG GROUP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**2. Summary of Significant Accounting Policies - *continued***

(q) 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.

(r) Advertising expense

The Company records advertising expenses in the period incurred.

(s) 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.

(t) Recently issued accounting standards

***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 AOCI. This new guidance requires entities to present (either on the face of the income statement or in the notes to the financial statements) the effects on the line items of the income statement for amounts reclassified out of AOCI. We have adopted this new guidance. We do not anticipate a material impact with this 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 derecognition 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. We do not anticipate material impacts on our consolidated financial statements upon adoption.

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards, the FASB issued a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

YASHENG GROUP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**2. Summary of Significant Accounting Policies - continued**

(u) 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%.

**3. 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.

| <b>Inventory Breakdown</b>        | <b>As of 9/30/14</b> | <b>As of 9/30/13</b> |
|-----------------------------------|----------------------|----------------------|
| <b>Raw material</b>               | 70,899,105           | 56,719,284           |
| <b>Finished goods</b>             | 193,650,071          | 154,672,302          |
| <b>Low value consumable goods</b> | 49,146,138           | 39,316,910           |
| <b>Packaging material</b>         | 32,193,240           | 25,754,592           |
| <b>Maintenance material</b>       | 16,873,880           | 13,499,104           |
| <b>Total</b>                      | <b>362,762,433</b>   | <b>289,962,192</b>   |

**4. 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.

**5. Profit appropriation**

Pursuant to the laws applicable to China's Foreign Investment Enterprises, each of the Company's subsidiaries in China allow 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. Payment to the statutory general reserve fund is at the Company 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.

**6. 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.

YASHENG GROUP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**7. Income taxes**

The Company and all of its agricultural subsidiaries are exempt from income taxes in the PRC. The Company has not filed an income tax return in the US.

**8. Debt**

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

**9. 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.

**10. Operating leases**

The Company has no operating leases for the periods shown.

**11. Segments**

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 table below.

| Subsidiaries   | <b>Breakdown by Subsidiary Unit: US Dollar</b> |                          |                       |                       |                      |                      |
|--|--|--------------------------|-----------------------|-----------------------|----------------------|----------------------|
|  | Net Sales                                      | Net Sales                | Cost of Sales         | Cost of Sales         | Gross Profit         | Gross Profit         |
|  | ended<br>9/30/2014                             | ended<br>9/30/2013       | ended<br>9/30/2014    | ended<br>9/30/2013    | ended<br>9/30/2014   | ended<br>9/30/2013   |
| Gansu Tiaoshan Agricultural-Industrial-Commercial Group Co., Ltd | \$ 342,879,998                                 | \$ 332,855,203           | \$ 301,652,769        | \$ 292,326,778        | \$ 41,278,732        | \$ 40,528,425        |
| Gansu Hongtai Agricultural Technology Co., Ltd.                  | 91,314,535                                     | 88,654,888               | 80,424,171            | 77,945,504            | 10,902,153           | 10,709,384           |
| Gansu Xiaheqing Industrial Co., Ltd.                             | 16,268,423                                     | 15,794,585               | 12,984,431            | 12,584,252            | 3,268,119            | 3,210,333            |
| Gansu Jinta Hengsheng Agricultural Development Co., Ltd.         | 81,500,646                                     | 79,126,841               | 71,173,214            | 68,979,661            | 10,329,829           | 10,147,180           |
| Gansu Jinta Xingsheng Industrial Co., Ltd.                       | 90,606,086                                     | 87,967,074               | 78,764,956            | 76,337,426            | 11,838,982           | 11,629,648           |
| Gansu Jinta Yongsheng Agricultural Development Company.          | 85,069,967                                     | 82,592,201               | 70,592,636            | 68,416,976            | 14,430,379           | 14,175,225           |
| Gansu Jinta Yuantai Commercial Trading Co., Ltd.                 | 939,538  | 912,173                  | 764,784               | 741,213               | 174,037              | 170,960              |
| <b>Totals for Quarter</b>  | <b>\$ 708,579,192</b>                          | <b>\$ 687,902,965.00</b> | <b>\$ 616,356,961</b> | <b>\$ 597,331,810</b> | <b>\$ 92,222,231</b> | <b>\$ 90,571,155</b> |





YASHENG GROUP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**11. Segments - continued**

Other segments that assist management in its analysis of the company's performance are the segments by product group, namely, agriculture, livestock and biotechnology. The following table contains that breakout of gross profit by product group.

**9 months ended 9-30-2014**

|                   | Sales ended<br>09/30/2014 | Sales ended<br>09/30/2013 | Cost of Sales ended<br>09/30/2014 | Cost of Sales ended<br>09/30/2013 | Gross Profit ended<br>09/30/2014 | Gross Profit ended<br>09/30/2013 | Gross Profit % ended<br>09/30/2014 | Gross Profit % ended<br>09/30/2013 |
|-------------------|---------------------------|---------------------------|-----------------------------------|-----------------------------------|----------------------------------|----------------------------------|------------------------------------|------------------------------------|
| Agriculture       | \$702,478,666             | 681,980,124               | 610,473,836                       | \$591,630,002                     | \$91,997,219                     | \$90,350,122                     | 13.10                              | 13.25                              |
| Livestock         | 1,346,614                 | 1,307,392                 | 1,247,174                         | 1,208,736                         | 100,432                          | 98,656                           | 7.46                               | 7.55                               |
| Biotechnology     | 4,753,912                 | 4,615,449                 | 4,635,952                         | 4,493,072                         | 124,580                          | 122,377                          | 2.62                               | 2.65                               |
| Total for Quarter | <u>\$708,579,192</u>      | <u>\$687,902,965</u>      | <u>\$616,356,961</u>              | <u>\$597,331,810</u>              | <u>\$92,222,231</u>              | <u>\$90,571,155</u>              | <u>13.02</u>                       | <u>13.17</u>                       |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following is a discussion of our financial condition, results of operations, liquidity and capital resources. This discussion should be read in conjunction with our audited financial statements and the notes thereto included elsewhere in this Form 10-Q and with our annual report for the year ended December 31, 2013.

Some of the statements under "Description of Business," "Risk Factors," "Management's Discussion and Analysis or Plan of Operation," and elsewhere in this Report and in the Company's periodic filings with the Securities and Exchange Commission constitute forward-looking statements. These statements involve known and unknown risks, significant uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward- looking statements. Such factors include, among other things, those listed under "Risk Factors" and elsewhere in this Report.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "intends," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology.

The forward-looking statements herein are based on current expectations that involve a number of risks and uncertainties. Such forward-looking statements are based on assumptions that the Company will obtain or have access to adequate financing for each successive phase of its growth, that there will be no material adverse competitive or technological change in condition of the Company's business, that the Company's President and other significant employees will remain employed as such by the Company, and that there will be no material adverse change in the Company's operations, business or governmental regulation affecting the Company. The foregoing assumptions are based on judgments with respect to, among other things, further economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company's control.

Although management believes that the expectations reflected in the forward-looking statements are reasonable, management cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither management nor any other persons assumes responsibility for the accuracy and completeness of such statements.

### GENERAL

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 including livestock and poultry. It also designs, develops and markets new technologies related to agriculture and genetic biology.

### RESULTS OF OPERATIONS

(unaudited)

|                                     | Three Months Ended<br>September 30, 2014 |               | Three Months Ended<br>September 30, 2013 |               |
|-------------------------------------|--|---------------|--|---------------|
|                                     | Dollars<br>(000's)                       | % of Sales    | Dollars<br>(000's)                       | % of Sales    |
| Net Sales                           | \$ 305,143                               | 100 %         | \$ 290,002                               | 100 %         |
| Costs of Goods Sold                 | 258,335                                  | 85 %          | 243,934                                  | 84 %          |
| Gross profit                        | 46,807                                   | 15 %          | 46,068                                   | 16 %          |
| Sales and marketing expenses        | 544                                      | 0.2 %         | 561                                      | 0.2 %         |
| General and administrative expenses | 1,353                                    | 0.4 %         | 1,370                                    | 0.5 %         |
| Interest expense                    | -517                                     | -0.01 %       | 108                                      | 0.0 %         |
| Other income                        | 1,321                                    | 0.04 %        | 1  | 0.0 %         |
| Net income                          | <u>\$ 46,748</u>                         | <u>14.7 %</u> | <u>\$ 44,030</u>                         | <u>15.2 %</u> |

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -  
*continued***

The functional currency for the Company is the RMB which is translated into US Dollars for financial reporting purposes. The average exchange rates for the periods presented were 6.1525 RMB to 1 USD for the nine months ended September 30, 2014 and 6.1931 RMB to 1 USD for the nine months ended September 30, 2013

**Net Sales.** Sales are generated primarily from our farming operations and related side line products in China. Net sales for the nine months ended September 30, 2014 increased by \$21 million, or 3% to \$708 million as compared to \$687 million for the nine months ended September 30, 2013. The overall increase in net sales was primarily a result of the rising prices of agricultural products attributable to increasing demand in China. We also benefited from our expanded marketing network which covers more provinces, with more distributors and direct clients.

**Cost of Goods Sold.** Our cost of goods sold consists of the direct production costs such as raw materials, direct labor, overhead and miscellaneous other supplies. Costs were in line with sales due to continued heightened focus on cost control exercised throughout production, the increase in cost is mainly due to the growth in the net sales.

**Gross Profit and Gross Margin.** Our gross profit for the three months ended September 30, 2014 increased by \$1.6 million or 1.8% to \$92 million from \$90 million for the three months ended September 30, 2013. The improved margin was primarily a result of the growth in the net sales.

**Sales and Marketing Expenses.** Our sales and marketing expenses for the nine months ended September 30, 2014 increased by \$9,346 or 0.7% to \$1,295,418 as compared to \$1,286,072 in the prior nine months ended September 30, 2013.

**General and Administrative Expenses.** Our general and administrative expenses for the nine months ended September 30, 2014 increased by \$21,651 or 0.7% to \$3,084,991 from \$3,063,340 for the nine months ended September 30, 2013.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -**  
*continued*

**Interest Expenses and Other Income.** Our interest expense for the nine months ended September 30, 2014 decreased by \$597,018 or 80% to \$150,397 as compared to \$747,415 in the prior nine months ended September 30, 2013. Our other income for the nine months ended September 30, 2014 increased by \$1,151,259 or 172% to \$1,818,274 as compared to \$667,015 in the prior nine months ended September 30, 2013.

**Liquidity and Capital Resources**

As of September 30, 2014, we had cash and cash equivalents of \$13.5 million and working capital of \$442 million. This compared to cash and cash equivalents of \$11.3 million and working capital of \$393 million as of September 30, 2013. The following table provides information about our net cash flows for the operating results presented in this report (amounts in thousands of USD).

|   | Nine Months Ended<br>September 30th |         |
|---|-------------------------------------|---------|
|   | 2014                                | 2013    |
| Net cash provided by operating activities                           | 43,251                              | 20,104  |
| Net cash used in investing activities                               | -36,905                             | -12,920 |
| Net cash used in financing activities                               | -4,078                              | -7,685  |
| Effect of foreign currency translation on cash and cash equivalents | -102                                | 760     |
| Cash and cash equivalents at beginning of the period                | 11,338                              | 10,980  |
| Cash and cash equivalents at end of period                          | 13,502                              | 11,239  |

Net cash provided by operating activities was \$43 million for the nine months ended September 30, 2014 as compared to \$20 million for the nine months ended September 30, 2013. Net cash used in investing activities was \$36.9 million for the nine months ended September 30, 2014 as compared to \$12.9 million for the nine months ended September 30, 2013. Net cash used in financing activities was \$4 million for the nine months ended September 30, 2014 compared with \$7.7 million for the nine months ended September 30, 2013.

We believe our cash on hand and cash flows from operations will meet our expected capital expenditures and working capital needs 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.

**Off-Balance Sheet Arrangements**

As of September 30, 2014 and for the nine months 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.

**Segments**

See Notes to financial statements for details on the segments.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

### **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 Quantitative and Qualitative Disclosures about Market Risk**

#### **3.**

Our international sales accounted for very little of our net sales in the first half of 2014. As a result, we have exposure to foreign exchange risk with respect to a minor portion of our sales. Fluctuations in exchange rates, particularly in the U.S. dollar to Chinese yuan (RMB) exchange rate, do not affect materially affect our gross and net profit margins even though they could result in foreign exchange and operating losses.

Our primary foreign currency exposures are transaction, cash flow and translation:

*Transaction Exposure:* We have certain asset and liabilities, primarily receivables, investments and accounts payable that are denominated in currencies other than the relevant entity's functional currency. In certain circumstances, changes in the functional currency value of these assets and liabilities create fluctuations in our reported consolidated financial position, results of operations and cash flows. We may enter into foreign exchange forward contracts or other instruments to minimize the short-term foreign currency fluctuations on such assets and liabilities. The gains and losses on the foreign forward contracts offset the transaction gains and losses on certain foreign currency receivables, investments and payables recognized in earnings.

*Cash Flow Exposure:* We have forecasted future cash flows, including revenues and expenses, denominated in currencies other than the relevant entity's functional currency. Our primary cash flow exposures include future customer collections and vendor payments.

*Earnings Translation Exposure:* Fluctuations in foreign currency exchange rates do not create volatility in our reported results of operations because we are required to consolidate the financial statement of all of our subsidiaries and most of our sales are in China. We decide to purchase forward exchange contracts or other instruments to offset the impact of currency fluctuations. Such contracts would be marked-to-market on a monthly basis and any unrealized gain or loss would be reported in interest and other income, net. We do not edge translation exposure at this time but may do so in the future.

**Item Quantitative and Qualitative Disclosures about Market Risk - continued**

**3.**

**Interest Rate Risk**

We are exposed to interest rate risk because some of our distributors and other vendees depend on debt financing to purchase our products and some of our subsidiaries depend on debt financing to construct facilities and to improve the farms. Although the useful life of our farm products is short, our distributors and vendees still have to pay the entire cost of their purchases at the time of shipment. As a result, many of our distributors and vendees rely on debt financing to fund their up-front cash flow needs and expenditures. An increase in interest rates could make it difficult for our distributors and vendee to secure the financings necessary to purchase, hold and resell our products, and thus lower and postpone demand for our products and reduce our net sales.

**Commodity Risk**

We are exposed to price risks associated with raw material purchases and sales into the domestic and foreign commodities markets.

**Item Controls and Procedures.**

**4.**

(a) *Evaluation of disclosure controls and procedures* . Our disclosure controls and procedures are designed to ensure (i) that information required to be disclosed by us in the reports we file or submit under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms; and (ii) that information required to be disclosed by us in the reports it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of June 30, 2013 we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial 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 (the “Exchange Act”). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were not effective at the reasonable assurance level.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(b) *Changes in internal controls* . During the period covered by this report, there was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.(c)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).

**Item Controls and Procedures - continued**

**4.**

**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 Gansu 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.

**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. This is an on-going process to improve our internal control and is not completed.

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

**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 the filing of this quarterly report has not fully allowed the PCAOB inspectors to review the work papers of our auditor, although progress is being made.



Regular inspections by the PCAOB of public company auditors was one of the corner stones 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 auditor oversight. This lack of oversight and the associated added expenses, also puts any US based audit firm in a distinct disadvantage when competing with a Chinese based audit firm for work in China.

**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.

## PART II

### Item 1. Legal Proceedings

The Company is not presently a party to any material legal actions.

### Item 1A. Risk Factors

See Item 3 in part above and the Company's 10-K for the year ended December 31, 2013.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Submission of Matters to Vote of Security Holders

None

### Item 5. Other Information

None

### Item 6. Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 31.1        | Certification of Chief Executive Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a)                          |
| 31.2        | Certification of Chief Financial Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a)                          |
| 32.1        | Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2        | Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.1        | Summary of Yasheng Labor Contract   |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 7, 2014

**YASHENG GROUP**

By: /s/ Ye Dong  
Ye Dong  
Chief Executive Officer

**YASHENG GROUP**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Ye Dong , certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 officers 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 reporting 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 officers 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 function):
  - 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.

November 7, 2014

/s/ Ye Dong

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Ye Dong, Chief Executive Officer

**YASHENG GROUP**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Haiyun Zhuang, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 officers 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 reporting 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 officers 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 function):
  - 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.

Dated: November 7, 2014

/s/ Haiyun Zhuang

Haiyun Zhuang, Chief Financial Officer

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**EXHIBIT 32.1**

**YASHENG GROUP**

**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 Quarterly Report of Yasheng Group (the "Company") on Form 10-Q for the period ended September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ye Dong, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (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 of the Company as of September 30, 2014 and results of operations of the Company for the three months and nine months ended September 30, 2014

/s/ Ye Dong

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Ye Dong, Chief Executive Officer and Chairman of the Board of Directors

November 7, 2014

**YASHENG GROUP**

**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 Quarterly Report of Yasheng Group Inc. (the "Company") on Form 10-Q for the period ended September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Haiyun Zhuang, Chief Financial Officer of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (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 of the Company as of September 30, 2014 and results of operations of the Company for the three months and nine months ended September 30, 2014.

/s/ Haiyun Zhuang

Haiyun Zhuang, Chief Financial Officer

November 7, 2014

**Summary of Yasheng Labor Contract**

**Abstract:** A Labor Contract: Labor Contract is the agreement reached between workers and employers, which is used to establish the labor relations, and specify the rights and obligations of both parties. Its clauses include the labor contract period, job duties, job safety, working conditions, labor payment, labor discipline, conditions for the termination of a labor contract, responsibility for the violation of a labor contract and so on. During the conclusion of the labor contract, the two parties to the contract must abide by the principles of equality, voluntariness and reaching unanimity through consultation.

**A labor contract shall have the following terms:** (a) the employer's name, domicile and legal representative or main person in charge;(b) the worker's name, address and the numbers of identity card or other valid identification, c)term of a labor contract;(d)the work content and work locations; (e) working hours, rest and vacation;(f) payment of labor, (g) social security; (h)labor protection, working conditions and occupational hazard protection; (i) any other business that should be included in a labor contract formulated by laws and regulations. Except the essential terms of a labor contract puts forward in the preceding paragraph, the employer and the worker may agree on any other business such as probation period, training, confidentiality, supplementary insurance and welfare benefits etc.

**The role of a labor contract:** (a) It is an important guarantee to achieve the labor rights of a worker. (b) It is an important means of the employer to reasonably use labor force, strengthen labor disciplines and improve labor productivity.(c) It is an important measure to reduce and prevent the occurrence of of labor disputes;(d)It is an important carrier to establish standardized and effective labor relations.

**Validity of a labor contract:** Under the provisions of article 18the of Chinese Labor Law, a labor contract entered into by violating of laws and administrative regulations, or adopt the approaches of fraud, threats and other means is a null and void labor contract.

**Term of the Labor Contract:**

(a) A labor contract of specific duration; (b) A labor contract without a fixed term; (c) A labor contract with a term to expire upon completion of a certain job.

**Conditions for dissolving a labor contract: t**

(a) on a mutually voluntary basis(or consensual); (b) consultation on the basis of equality; (c)shall not harm the interests of one party.

**Conditions for the termination of a labor contract:**

(a) The law rules that the employer can terminated at any time, the worker does not cause economic loss to the employer; (b)Due to the worker himself /herself, he/she loses a professional qualification .