

YEW BIO-PHARM GROUP, INC.

FORM 10-Q (Quarterly Report)

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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, 2016

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-54701

YEW BIO-PHARM GROUP, INC.
(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

26-1579105

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

9460 Telstar Avenue, Suite 6
El Monte, California 91732

(Address of principal executive offices) (Zip Code)

(626) 401-9588

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 or a non-accelerated filer. 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 Accelerated filer
Non-accelerated filer 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

As of November 14, 2016, there were 51,875,000 shares, \$0.001 par value per share, of the registrant's common stock outstanding.

YEW BIO-PHARM GROUP, INC.

FORM 10-Q

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2015
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Forward-Looking Statements

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are “forward-looking statements”, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect” or “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. Some of the key factors impacting these risks and uncertainties include, but are not limited to:

- risks related to our ability to collect amounts owed to us by some of our largest customers;
- our ability to continue to purchase yew cuttings from our various suppliers at relatively stable prices;
- our dependence on a small number of customers for our yew raw materials, including a related party ;
- our dependence on a small number of customers for our yew trees for reforestation;
- our ability to market successfully yew raw materials used in the manufacture of traditional Chinese medicine (“TCM”);
- industry-wide market factors and regulatory and other developments affecting our operations;
- our ability to sustain revenues should the Chinese economy slow from its current rate of growth;
- continued preferential tax treatment for the sale of yew trees and potted yew trees;
- uncertainties about involvement of the Chinese government in business in the People’s Republic of China (the “PRC” or “China”) generally; and
- any change in the rate of exchange of the Chinese Renminbi (“RMB”) to the U.S. dollar, which could affect currency translations of our results of operations, which are earned in RMB but reported in dollars;
- industry-wide market factors and regulatory and other developments affecting our operations;
- any impairment of any of our assets;
- a slowdown in the Chinese economy; and
- risks related to changes in accounting interpretations.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see the section entitled “Risk Factors”, beginning on page 15 of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities & Exchange Commission (“SEC”) on March 30, 2016.

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YEW BIO-PHARM GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30,	December 31,
	2016	2015
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 964,701	\$ 681,608
Restricted cash	295,380	303,511
Accounts receivable	8,564,463	3,857,968
Accounts receivable - related parties	3,546,845	6,489,495
Inventories	12,570,532	4,665,549
Prepaid expenses - related parties	85,252	106,370
Prepaid expenses and other assets	45,796	64,174
VAT recoverables	2,554,246	699,258
	<u>28,627,215</u>	<u>16,867,933</u>
LONG-TERM ASSETS:		
Long-term inventories, net	14,417,140	12,334,261
Property and equipment, net	686,583	702,764
Land use rights and yew forest assets, net	4,893,115	13,906,379
	<u>19,996,838</u>	<u>26,943,404</u>
Total Long-term Assets	<u>19,996,838</u>	<u>26,943,404</u>
Total Assets	<u>\$ 48,624,053</u>	<u>\$ 43,811,337</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,650,084	\$ 11,345
Accounts payable - related party	290,506	41,319
Accrued expenses and other payables	496,988	124,686
Notes payable	590,760	607,022
Taxes payable	13,774	14,261
Due to related parties	827,157	761,236
Short-term borrowings	2,998,779	3,081,332
	<u>6,868,048</u>	<u>4,641,201</u>
Total Current Liabilities	<u>6,868,048</u>	<u>4,641,201</u>
Total Liabilities	<u>6,868,048</u>	<u>4,641,201</u>
SHAREHOLDERS' EQUITY:		
Common Stock (\$0.001 par value; 140,000,000 shares authorized; 51,875,000 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively)	51,875	51,875
Additional paid-in capital	9,868,076	9,622,558
Retained earnings	28,106,385	25,067,733
Statutory reserves	4,160,781	3,762,288
Accumulated other comprehensive income (loss) - foreign currency translation adjustment	(431,112)	665,682
	<u>41,756,005</u>	<u>39,170,136</u>
Total Shareholders' Equity	<u>41,756,005</u>	<u>39,170,136</u>
Total Liabilities and Shareholders' Equity	<u>\$ 48,624,053</u>	<u>\$ 43,811,337</u>

See notes to these unaudited consolidated financial statements

YEW BIO-PHARM GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUES:				
Revenues	\$ 7,793,111	\$ 1,997,998	\$ 15,283,780	\$ 5,437,593
Revenues - related party	6,873,988	2,999,203	24,063,798	6,868,985
Total Revenues	14,667,099	4,997,201	39,347,578	12,306,578
COST OF REVENUES:				
Cost of revenues	7,650,346	1,900,418	15,085,190	3,807,777
Cost of revenues - related party	5,597,721	1,677,625	19,800,134	3,228,355
Total Cost of Revenues	13,248,067	3,578,043	34,885,324	7,036,132
GROSS PROFIT	1,419,032	1,419,158	4,462,254	5,270,446
OPERATING EXPENSES:				
Selling	5,667	10,013	17,754	23,776
General and administrative	293,850	474,560	938,920	1,417,338
Total Operating Expenses	299,517	484,573	956,674	1,441,114
INCOME FROM OPERATIONS	1,119,515	934,585	3,505,580	3,829,332
OTHER INCOME (EXPENSES):				
Interest expense	(39,367)	(33,496)	(108,654)	(51,917)
Government grant	-	-	-	135,322
Other income	390	36,496	40,219	32,023
Total Other Income (Expenses)	(38,977)	3,000	(68,435)	115,428
INCOME BEFORE INCOME TAXES	1,080,538	937,585	3,437,145	3,944,760
PROVISION FOR INCOME TAXES	-	(4,071)	-	(47,200)
NET INCOME	\$ 1,080,538	\$ 933,514	\$ 3,437,145	\$ 3,897,560
COMPREHENSIVE INCOME:				
NET INCOME	\$ 1,080,538	\$ 933,514	\$ 3,437,145	\$ 3,897,560
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustment	(198,125)	(1,701,546)	(1,096,794)	(1,319,999)
COMPREHENSIVE INCOME	\$ 882,413	\$ (768,032)	\$ 2,340,351	\$ 2,577,561
NET INCOME PER COMMON SHARE:				
Basic	\$ 0.02	\$ 0.02	\$ 0.07	\$ 0.07
Diluted	\$ 0.02	\$ 0.02	\$ 0.07	\$ 0.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	51,875,000	52,158,967	51,875,000	52,136,447
Diluted	51,893,930	52,189,711	51,875,000	55,518,924

See notes to these unaudited consolidated financial statements

YEW BIO-PHARM GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,437,145	\$ 3,897,560
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	89,410	112,837
Stock-based compensation	245,518	800,954
Stock issued for professional services	-	3,356
Amortization of land use rights and yew forest assets	8,784,562	1,108,773
Gain on disposal of property and equipment	-	(32,083)
Changes in operating assets and liabilities:		
Accounts receivable	(4,873,750)	(783,741)
Accounts receivable - related parties	2,806,724	339,740
Prepaid expenses and other current assets	(7,999)	(269,309)
Prepaid expenses - related parties	18,519	(375,030)
Due from related party	-	(13,383)
Inventories	(10,567,924)	(5,191,187)
VAT recoverables	(1,899,393)	(1,105,672)
Accounts payable	1,660,178	-
Accounts payable – related party	253,723	-
Accrued expenses and other payables	408,002	95,379
Advances from customers	-	165,092
Due to related parties	7,471	-
Taxes payable	(199)	39,506
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	361,987	(1,207,208)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(7,742)	(7,913)
Payment for land use rights and yew forest assets	-	(1,362,205)
NET CASH USED IN INVESTING ACTIVITIES	(7,742)	(1,370,118)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	1,530,105	1,642,360
Repayment of short-term borrowings	(1,530,105)	-
Proceeds from related party	181	658,255
Repayments to related party	(49,030)	(5,656)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(48,849)	2,294,959
EFFECT OF EXCHANGE RATE ON CASH	(22,303)	(34,090)
NET INCREASE (DECREASE) IN CASH	283,093	(316,457)
CASH - Beginning of period	681,608	487,940
CASH - End of period	\$ 964,701	\$ 171,483
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 64,383	\$ 47,017
Income taxes	\$ 6,460	\$ -
Non-cash investing and financing activities		
Operating expenses paid by related parties	\$ 27,214	\$ -
Reclassification of yew forest assets to inventories	-	190,817

YEW BIO-PHARM GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the Securities and Exchange Commission ("SEC"). The condensed consolidated balance sheet as of December 31, 2015 was derived from the audited consolidated financial statements of Yew Bio-Pharm Group, Inc. (individually "YBP" and collectively with its subsidiaries and operating variable interest entity, the "Company"). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of September 30, 2016, and the results of operations and cash flows for the nine-month periods ended September 30, 2016 and 2015, have been made.

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company continually evaluates its estimates, including those related to bad debts, inventories, income taxes, and the valuation of equity transactions. The Company bases its estimates on historical experience and on various other assumptions that it 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. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Certain amounts from prior period financial statements have been reclassified to conform to the current period presentation. This reclassification has resulted in no changes to the Company's accumulated deficit or net loss presented.

Details of the Company's subsidiaries, variable interest entity ("VIE") and VIE's subsidiary are as follows:

Name	Domicile and Date of Incorporation	Registered Capital	Effective Ownership	Principal Activities
Heilongjiang Jinshangjing Bio-Technology Development Co., Limited ("JSJ")	PRC October 29, 2009	US\$100,000	100%	Holding company
Yew Bio-Pharm Holdings Limited ("Yew Bio-Pharm (HK)")	Hong Kong November 29, 2010	HK\$10,000	100%	Holding company of JSJ
Harbin Yew Science and Technology Development Co., Ltd. ("HDS")	PRC August 22, 1996	RMB45,000,000	Contractual arrangements	Sales of yew tree components for use in pharmaceutical industry; sales of yew tree seedlings manufacture of yew tree wood handicrafts; and sales of candle and wood ear mushroom
Harbin Yew Food Co., Ltd ("HYF")	PRC November 4, 2014	RMB100,000 ⁽¹⁾	100%	Sales of wood ear mushroom drink

(1) Harbin Yew Food Co. Ltd is wholly owned by HDS and did not pay the registered capital as of September 30, 2016.

NOTE 2 – PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of YBP, its subsidiaries and operating VIE, in which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated on consolidation.

Pursuant to a restructuring plan intended to ensure compliance with applicable PRC laws and regulations (the “Second Restructure”), on November 5, 2010, JSJ entered into a series of contractual arrangements (the “Contractual Arrangements”) with HDS and/or Zhiguo Wang, his wife Guifang Qi and Xingming Han (collectively with Mr. Wang and Madame Qi, the “HDS Shareholders”), as described below:

- **Exclusive Business Cooperation Agreement.** Pursuant to the Exclusive Business Cooperation Agreement between JSJ and HDS (the “Business Cooperation Agreement”), JSJ has the exclusive right to provide to HDS general business operation services, including advice and strategic planning, as well as consulting services related to technology, research and development, human resources, marketing and other services deemed necessary (collectively, the “Services”). Under the Business Cooperation Agreement, JSJ has exclusive and proprietary rights and interests in all rights, ownership, interests and intellectual properties arising out of or created during the performance of the Business Cooperation Agreement, including but not limited to copyrights, patents, patent applications, software and trade secrets. HDS shall pay to JSJ a monthly consulting service fee (the “Service Fee”) in RMB that is equal to 100% of the monthly net income of HDS. Upon the prior written consent by JSJ, the rate of Service Fee may be adjusted pursuant to the operational needs of HDS. Within 30 days after the end of each month, HDS shall (a) deliver to JSJ the management accounts and operating statistics of HDS for such month, including the net income of HDS during such month (the “Monthly Net Income”), and (b) pay 80% of such Monthly Net Income to JSJ (each such payment, a “Monthly Payment”). Within ninety (90) days after the end of each fiscal year, HDS shall (a) deliver to JSJ financial statements of HDS for such fiscal year, which shall be audited and certified by an independent certified public accountant approved by JSJ, and (b) pay an amount to JSJ equal to the shortfall, if any, of the aggregate net income of HDS for such fiscal year, as shown in such audited financial statements, as compared to the aggregate amount of the Monthly Payments paid by HDS to JSJ in such fiscal year. HDS also granted an irrevocable and exclusive option to JSJ to purchase any and all of the assets of HDS, to the extent permitted under PRC law, at the lowest price permitted by PRC law. Unless earlier terminated in accordance with the provisions of the Business Cooperation Agreement or other agreements separately executed between JSJ and HDS, the Business Cooperation Agreement is for a term of ten years and expires on November 5, 2020; however, the term of the Business Cooperation Agreement may be extended if confirmed in writing by JSJ prior to the expiration of the term thereof. The period of the extended term shall be determined exclusively by JSJ and HDS shall accept such extended term unconditionally. Unless JSJ commits gross negligence, or a fraudulent act, against HDS, HDS shall not terminate the Business Cooperation Agreement prior to the expiration of the term, including any extended term. Notwithstanding the foregoing, JSJ shall have the right to terminate the Business Cooperation Agreement at any time upon giving 30 days’ prior written notice to HDS.
- **Exclusive Option Agreement.** Under an Exclusive Option Agreement among JSJ, HDS and each HDS Shareholder (individually, an “Option Agreement”), the terms of which are substantively identical to each other, each HDS Shareholder has granted JSJ or its designee the irrevocable and exclusive right to purchase, to the extent permitted under PRC law, all or any part of the HDS Shareholder’s equity interests in HDS (the “Equity Interest Purchase Option”) for RMB10. If an appraisal is required by PRC laws at the time when and if JSJ exercises the Equity Interest Purchase Option, the parties shall negotiate in good faith and, based upon the appraisal, make a necessary adjustment to the purchase price so that it complies with any and all then applicable PRC laws. Without the consent of JSJ, the HDS Shareholders shall not sell, transfer, mortgage or dispose of their respective shares of HDS stock. Additionally, without the prior consent of JSJ, the HDS Shareholders shall not in any manner supplement, change or amend the articles of association and bylaws of HDS, increase or decrease its registered capital, change the structure of its registered capital in any other manner, or engage in any transactions that could materially affect HDS’ assets, liabilities, rights or operations, including, without limitation, the incurrence or assumption of any indebtedness except incurred in the ordinary course of business, execute any major contract over RMB500,000, sell or purchase any assets or rights, incur of any encumbrance on any of its assets or intellectual property rights in favor of a third party or transfer of any agreements relating to its business operation to any third party. The term of each Option Agreement is ten years commencing on November 5, 2020 and may be extended at the sole election of JSJ.
- **Equity Interest Pledge Agreement.** In order to guarantee HDS’ performance of its obligations under the Business Cooperation Agreement, each HDS Shareholder, JSJ and HDS entered into an Equity Interest Pledge Agreement (individually, a “Pledge Agreement”), the terms of which are substantially similar to each other. Pursuant to the Pledge Agreement, each HDS Shareholder pledged all of his or her equity interest in HDS to JSJ. If HDS or the HDS Shareholders breach their respective contractual obligations and such breach is not remedied to the satisfaction of JSJ within 20 days after the giving of notice of breach, JSJ, as pledgee, will be entitled to exercise certain rights, including the right to foreclose upon and sell the pledged equity interests. During the term of the Pledge Agreement, the HDS Shareholder shall not transfer his or her equity interest in HDS or place or otherwise permit any other security interest of other encumbrance to be placed on such equity interest. Upon the full payment of the Service Fee under the Business Cooperation Agreement and upon the termination of HDS’ obligations thereunder, the Pledge Agreement shall be terminated.

- **Power of Attorney.** Under the Power of Attorney executed by each HDS Shareholder (each, a “Power of Attorney”), the terms of which are substantially similar to each other, JSJ has been granted an exclusive, irrevocable power of attorney to take actions in the place and stead of the HDS Shareholders, to act on behalf of the HDS Shareholder as his or her exclusive agent and attorney with respect to all matters concerning the HDS Shareholder’s equity interests in HDS, including without limitation, the right to: 1) attend shareholders’ meetings of HDS; 2) exercise all the HDS Shareholders’ rights, including voting rights under PRC laws and HDS’ Articles of Association, including but not limited to the sale or transfer or pledge or disposition of the HDS Shareholder’s equity interests in HDS in whole or in part; and 3) designate and appoint on behalf of the HDS Shareholders the legal representative, executive director, supervisor, manager and other senior management of HDS.

To the extent that the Contractual Arrangements are enforceable under PRC law, as from time to time interpreted by relevant state agencies, they constitute the valid and binding obligations of each of the parties to each such agreement.

The Company believes that HDS is considered a VIE under ASC 810 “Consolidation”, because the equity investors in HDS no longer have the characteristics of a controlling financial interest, and the Company, through JSJ, is the primary beneficiary of HDS and controls HDS’ operations. Accordingly, HDS has been consolidated as a deemed subsidiary into YBP as a reporting company under ASC 810.

As of September 30, 2016, the Company agreed to waive all management fees to be payable by HDS and the Company expects to waive such management fees in the near future due to a need of working capital in HDS to expand HDS’ operations.

YBP has no direct or indirect legal or equity ownership interest in HDS. However, through the Contractual Arrangements, the stockholders of HDS have assigned all their rights as stockholders, including voting rights and disposition rights of their equity interests in HDS to JSJ, our indirect, wholly-owned subsidiary. YBP is deemed to be the primary beneficiary of HDS and the financial statements of HDS are consolidated in the Company’s consolidated financial statements. At September 30, 2016 and December 31, 2015, the carrying amount and classification of the assets and liabilities in the Company’s balance sheets that relate to the Company’s VIE and VIE’s subsidiary are as follows:

	September 30, 2016	December 31, 2015
Assets		
Cash	\$ 948,958	\$ 662,038
Restricted cash	295,380	303,511
Accounts receivable	8,457,710	3,817,872
Accounts receivable – related parties	3,546,845	6,489,495
Inventories (current and long-term), net	26,285,467	16,342,789
Prepaid expenses and other assets	2,591,561	753,351
Prepaid expenses – related parties	85,252	106,370
Property and equipment, net	581,263	671,762
Land use rights and yew forest assets, net	4,867,977	13,906,379
Total assets of VIE	<u>\$ 47,660,413</u>	<u>\$ 43,053,567</u>
Liabilities		
Accrued expenses and other payables	\$ 2,337,874	\$ 174,808
Taxes payable	9,319	11,901
Due to VIE holding companies	646,843	1,046,366
Short-term borrowings	2,998,779	3,081,332
Note payable	590,760	607,022
Due to related parties	101,171	71,881
Total liabilities of VIE	<u>\$ 6,684,746</u>	<u>\$ 4,993,310</u>

NOTE 3 – INVENTORIES

Inventories consisted of raw materials, work-in-progress, finished goods-handicrafts, yew candles and pine needle extracts, yew seedlings, and other trees, which consist of larch, spruce and poplar trees. The Company classifies its inventories based on its historical and anticipated levels of sales; any inventory in excess of its normal operating cycle of one year is classified as long-term on its consolidated balance sheets. As of September 30, 2016 and December 31, 2015, inventories consisted of the following:

	September 30, 2016			December 31, 2015		
	Current portion	Long-term portion	Total	Current portion	Long-term portion	Total
Raw materials	\$ 28,585	\$ 2,590,053	\$ 2,618,638	\$ 39,341	\$ 2,653,104	\$ 2,692,445
Work-in-process	-	-	-	-	-	-
Finished goods	11,948,247	606,419	12,554,666	1,332,323	717,355	2,049,678
Yew seedlings	495,937	7,863,576	8,359,513	2,426,990	6,397,951	8,824,941
Other trees	103,658	3,448,054	3,551,712	872,674	2,673,454	3,546,128
Total	12,576,427	14,508,102	27,084,529	4,671,328	12,441,864	17,113,192
Reserve for impairment - handicrafts	(5,895)	(90,962)	(96,857)	(5,779)	(107,603)	(113,382)
Inventories, net	\$ 12,570,532	\$ 14,417,140	\$ 26,987,672	\$ 4,665,549	\$ 12,334,261	\$ 16,999,810

NOTE 4 – TAXES**(a) Federal Income Tax and Enterprise Income Taxes**

The Company is registered in the State of Nevada and is subject to the United States federal income tax at a tax rate of 34%. No provision for income taxes in the U.S. has been made as the Company had no U.S. taxable income as of September 30, 2016 and December 31, 2015.

The Company's subsidiary, VIE and its subsidiary, JSJ, HDS, and HYF, respectively, incorporated in the PRC, are subject to PRC's Enterprise Income Tax. Pursuant to the PRC Income Tax Laws, Enterprise Income Taxes ("EIT") is generally imposed at 25%. However, HDS has been named as a leading enterprise in the agricultural industry and awarded with a tax exemption through December 31, 2058 with exceptions of handicrafts, yew candles, pine needle extract and wood ear mushroom sold, which are not within the scope of agricultural area.

The combined effects of the income tax expense exemptions and tax reductions available to the Company for the three months and nine months ended September 30, 2016 and 2015 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Tax exemption effect	\$ 318,207	\$ 317,419	\$ 1,009,084	\$ 1,185,109
Tax reduction due to loss carry-forward	-	-	-	2,363
Loss not subject to income tax	(2,548)	(326)	(12,853)	(1,070)
Basic net income per share effect	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Diluted net income per share effect	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

The table below summarizes the difference between the U.S. statutory federal tax rate and the Company's effective tax rate for the three months and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
U.S. federal income tax rate	34%	34%	34%	34%
Foreign income not recognized in the U.S.	(34%)	(34%)	(34%)	(34%)
PRC EIT rate	25%	25%	25%	25%
PRC tax exemption and reduction	(25%)	(25%)	(25%)	(24%)
Total provision for income taxes	-	-	-	1%

Deferred tax assets and liabilities are provided for significant income and expense items recognized in different years for income tax and financial reporting purposes. Temporary differences, which give rise to a net deferred tax asset for the Company as of September 30, 2016 and 2015, are as follows:

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
U.S. tax benefit of net operating loss carry forward	\$ 1,431,319	\$ 1,721,648
Valuation allowance	(1,431,319)	(1,721,648)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

(b) Value Added Taxes (“VAT”)

The applicable VAT tax rate is 13% for agricultural products and 17% for handicrafts sold in the PRC. In accordance with VAT regulations in the PRC, the Company is exempt from paying VAT on its yew raw materials and yew trees sales as an agricultural corps cultivating company up to December 31, 2016. VAT payable in the PRC is charged on an aggregated basis at the applicable rate on the full price collected for the goods sold or taxable services provided and less any deductible VAT already paid by the taxpayer on purchases of goods in the same fiscal year.

NOTE 5 – SHORT-TERM BORROWINGS AND NOTES PAYABLE

On April 23, 2015, HDS entered into a loan agreement with Harbin Rongtong Branch of Bank of Communications (“BOCOM”) in the amount of RMB10,000,000 (approximately \$1,630,000 at the time of borrowing). HDS paid off the loan in full on April 22, 2016. On May 30, 2016, HDS entered into a loan agreement with BOCOM in the amount of RMB10,000,000 (approximately \$1,507,000), payable on May 30, 2017. The loan carries an interest rate of 5.8725% per annum and is payable quarterly. Heilongjiang Zishan Technology Co., Ltd. (“ZTC”), a related party controlled by Zhiguo Wang and his wife Madame Qi, collateralized its buildings and land use right with BOCOM to secure the loan. In addition, ZTC, Heilongjiang Yew Pharmaceutical Co., Ltd. (“Yew Pharmaceutical”), a related party of the Company, Zhiguo Wang, Madame Qi, Yicheng Wang, the son of Zhiguo Wang and Yuqi Mao, the spouse of Yicheng Wang, provided guarantees to the loan.

On November 24, 2015, the Company executed a loan in the form of factoring agreement with Shanghai Pudong Development Bank (“SPD Bank”) Harbin Branch in the principal amount of RMB10,000,000 (approx. \$1,560,000). The loan carries an interest rate of 3.969% per annum and is payable, together with the principal, on November 18, 2016. The proceeds of the loan will be used by the Company to purchase raw materials and for general corporate purposes. Madam Qi has secured the loan with her personal assets. In addition, Yew Pharmaceutical, Yicheng Wang, the son of Zhiguo Wang and Yuqi Mao, the spouse of Yicheng Wang, provided guarantees to the loan.

On November 26, 2015, the Company issued several commercial acceptance notes to Yew Pharmaceutical with the total principal amount of RMB3,940,000 (approximately \$610,000) to pay partial of the account payable owed. The terms of the commercial acceptance notes include the same maturity date of May 26, 2016 with no interest. On May 26, 2016, the Company paid off the commercial acceptance notes in full.

On May 27, 2016, the Company issued several commercial acceptance notes to Yew Pharmaceutical with the total principal amount of RMB3,940,000 (approximately \$594,000) to pay partial of the account payable owed. The terms of the commercial acceptance notes include the same maturity date of November 27, 2016 with no interest. The commercial acceptance notes are secured by a deposit of RMB1,970,000 (approximately \$300,000) from the Company.

NOTE 6 – STOCKHOLDERS' EQUITY

Stock option activities for the nine months ended September 30, 2016 and 2015 were summarized in the following table.

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Balance at beginning of period	26,805,512	0.22	27,205,512	0.26
Exercised	-	-	-	-
Forfeited	-	-	400,000	0.23
Balance at end of period	26,805,512	0.22	26,805,512	0.22
Option exercisable at end of period	24,945,512	0.22	22,985,512	0.22

The following table summarizes the shares of the Company's common stock issuable upon exercise of options outstanding at September 30, 2016:

Stock Options Outstanding			Stock Options Exercisable		
Range of Exercise Price	Number Outstanding at September 30, 2016	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at September 30, 2016	Weighted Average Exercise Price
\$ 0.20-0.23	26,805,512	1.25	\$ 0.22	24,945,512	\$ 0.22

The Company's outstanding stock options and exercisable stock options had no intrinsic value, based upon the Company's closing stock price of \$0.15 as of September 30, 2016. Stock option expense recognized during the nine months ended September 30, 2016 amounted to \$245,518.

There were no stock warrants issued, terminated, forfeited and exercised during the nine months ended September 30, 2016.

NOTE 7 – EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted net income per share for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income available to common stockholders for basic and diluted net income per share of common stock	\$ 1,080,538	\$ 933,514	\$ 3,437,145	\$ 3,897,560
Weighted average common stock outstanding – basic	51,875,000	52,158,967	51,875,000	52,136,447
Effect of dilutive securities:				
Non-vested restricted common stock	-	30,744	-	136,895
Stock options issued to directors/officers/employees	18,930	-	-	3,245,582
Weighted average common stock outstanding – diluted	51,893,930	52,189,711	51,875,000	55,518,924
Net income per common share – basic	\$ 0.02	\$ 0.02	\$ 0.07	\$ 0.07
Net income per common share – diluted	\$ 0.02	\$ 0.02	\$ 0.07	\$ 0.07

NOTE 8 – CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS**Customers**

For the three and nine months ended September 30, 2016 and 2015, customers accounting for 10% or more of the Company's revenue were as follows:

Customer	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
A (Yew Pharmaceutical, a related party)	47%	40%	61%	56%
B	20%	38%	25%	28%

The two largest customers accounted for 99% and 94% of the Company's total outstanding accounts receivable at September 30, 2016 and December 31, 2015, respectively, of which Yew Pharmaceutical, a related party, accounted for 29% and 63% of total outstanding accounts receivable, respectively.

Suppliers

For the three and nine months ended September 30, 2016 and 2015, suppliers accounting for 10% or more of the Company's purchase were as follows:

Supplier	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
A (Yew Pharmaceutical, a related party)	71%	67%	76%	52%
B	*%	15%	*%	17%
C	*%	10%	*%	16%

* Less than 10%

Accounts payable to Yew Pharmaceutical accounted for 15% and 78% of the Company's total accounts payable at September 30, 2016 and December 31, 2015, respectively. The Company had no accounts payable to Supplier B or C at September 30, 2016 and December 31, 2015.

NOTE 9 – RELATED PARTY TRANSACTIONS

In addition to several of the Company's officers and directors, the Company conducted transactions with the following related parties:

Company	Ownership
Heilongjiang Zishan Technology Stock Co., Ltd. ("ZTC")	18% owned by Heilongjiang Hongdoushan Ecology Forest Stock Co., Ltd., 39% owned by Zhiguo Wang, Chairman and Chief Executive Officer, 31% owned by Guifang Qi, the wife of Mr. Wang and director of the Company, and 12% owned by third parties.
Heilongjiang Yew Pharmaceutical Co., Ltd. ("Yew Pharmaceutical")	95% owned by Heilongjiang Hongdoushan Ecology Forest Stock Co., Ltd., and 5% owned by Madame Qi.
Shanghai Kairun Bio-Pharmaceutical Co., Ltd. ("Kairun")	60% owned by Heilongjiang Zishan Technology Co., Ltd., 20% owned by Heilongjiang Hongdoushan Ecology Forest Stock Co., Ltd., and 20% owned by Mr. Wang.
Heilongjiang Hongdoushan Ecology Forest Stock Co., Ltd. ("HEFS")	63% owned by Mr. Wang, 34% owned by Madame Qi, and 3% owned by third parties.
Hongdoushan Bio-Pharmaceutical Co., Ltd. ("HBP")	30% owned by Mr. Wang, 19% owned by Madame Qi and 51% owned by HEFS.
Heilongjiang Pingshan Hongdoushan Development Co., Ltd. ("HDS Development")	80% owned by HEFS and 20% owned by Kairun
Wuchang City Xinlin Forestry Co., Ltd. (Xinlin)	98% owned by ZTC and 2% owned by HEFS effective March 21, 2016.
Changzhi Du	Legal representative of Xinlin.
Jinguo Wang	Manager in charge of inventory and forest assets in HDS.

Transactions with Yew Pharmaceutical

On January 9, 2010, the Company entered into a Cooperation and Development Agreement (the "Development Agreement") with Yew Pharmaceutical. Pursuant to the Development Agreement, for a period of ten years expiring on January 9, 2020, the Company shall supply cultivated yew raw materials to Yew Pharmaceutical that will be used by Yew Pharmaceutical to make traditional Chinese medicines and other pharmaceutical products, at price of RMB 1,000,000 (approximately \$158,000) per metric ton. In addition, the Company entered into a series of wood ear mushroom selling agreements with Yew Pharmaceuticals, pursuant to which the Company sells wood ear mushroom collected from local peasants to Yew Pharmaceuticals for manufacturing of wood ear mushroom products. Furthermore, the Company entered into a series of yew candles and pine needle extracts purchase agreements with Yew Pharmaceuticals, pursuant to which the Company purchases yew candles and pine needle extracts as finished goods and then sells to third party.

For the nine months ended September 30, 2016 and 2015, sales to Yew Pharmaceutical under the above agreements amounted to \$24,063,798 and \$6,868,985, respectively. At September 30, 2016 and December 31, 2015, the Company had \$3,546,845 and \$6,484,804 accounts receivable from Yew Pharmaceutical, respectively.

For the nine months ended September 30, 2016, the total purchase of yew candles and pine needle extracts from Yew Pharmaceutical amounted to \$29,330,000.

For the nine months ended September 30, 2016, HYF purchased wood ear mushroom extracts from Yew Pharmaceutical in the amount of \$3,660 and had accounts payable of \$43,872 to Yew Pharmaceutical at September 30, 2016.

At September 30, 2016 and December 31, 2015, HYF had \$38,997 and \$40,071, respectively, due to Yew Pharmaceutical, which represents an unsecured loan bearing no interest and payable on demand and was included in due to related parties on the accompanying consolidated balance sheets.

Transactions with HBP

At September 30, 2016 and December 31, 2015, HYF had accounts receivable from HBP in the amount of \$nil and \$4,691, respectively.

At December 31, 2015, HYF had due to HBP in the amount of \$27,097, which represents an unsecured loan bearing no interest and payable on demand. During the nine months ended September 30, 2016, HBP paid off operation expenses on behalf of HYF in the amount of \$27,214. As of September 30, 2016, HYF had due to HBP in the amount of \$53,217, which was included in due to related parties on the accompanying consolidated balance sheets.

Transactions with HDS Development

On January 20, 2016, the Company prepaid \$310,334 to HDS Development for purchasing yew seedlings. On June 30, 2016, the prepayment was returned to the Company in full due to the cancellation of the purchase.

Transactions with Xinlin

On May 31, 2016, HDS purchased yew seedlings from Xinlin in the amount of \$539,780. As of September 30, 2016 and December 31, 2015, the Company had no accounts payable to Xinlin.

Transactions with Changzhi Du

For the nine months ended September 30, 2016, HDS purchased yew seedlings from Changzhi Du in the amount of \$2,475,283. As of September 30, 2016, the Company had accounts payable of \$246,634 to Changzhi Du.

Transactions with Jinguo Wang

On May 31, 2016, HDS purchased yew seedlings from Jinguo Wang in the amount of \$449,817. As of September 30, 2016 and December 31, 2015, the Company had no accounts payable to Jinguo Wang.

Operating Leases

On March 25, 2005, the Company entered into an Agreement for the Lease of Seedling Land with ZTC (the "ZTC Lease"). Pursuant to the ZTC Lease, the Company leased 361 mu of land from ZTC for a period of 30 years, expiring on March 24, 2035. Annual payments under the ZTC Lease are RMB 162,450 (approximately \$25,000). The payment for the first five years of the ZTC Lease was due prior to December 31, 2010 and beginning in 2011, the Company is required to make full payment for the land use rights in advance for each subsequent five-year period. For the nine months ended September 30, 2016 and 2015, rent expense related to the ZTC Lease amounted to \$18,518 and \$19,777, respectively. At September 30, 2016 and December 31, 2015, prepaid rent to ZTC amounted to \$85,252 and \$106,370, respectively, which was included in prepaid expenses - related parties on the accompanying consolidated balance sheets.

On January 1, 2010, the Company entered into a lease for office space with Mr. Wang (the “Office Lease”). Pursuant to the Office Lease, annual payments of RMB15,000 (approximately \$2,000) are due for each of the term. The term of the Office Lease is 15 years and expires on December 31, 2025. For the nine months ended September 30, 2016 and 2015, rent expense related to the Office Lease amounted to \$1,710 and \$1,826, respectively. At September 30, 2016 and December 31, 2015, the unpaid rent was \$2,667 and \$1,138, respectively, which was included in due to related parties on the accompanying consolidated balance sheets.

On July 1, 2012, the Company entered into a lease for office space with Mr. Wang (the “JSJ Lease”). Pursuant to the JSJ Lease, JSJ leases approximately 30 square meter of office space from Mr. Wang in Harbin. Rent under the JSJ Lease is RMB10,000 (approximately \$1,500) annually. The term of the JSJ Lease is three years and expires on June 30, 2015. On July 1, 2015, the Company and Mr. Wang renewed the JSJ Lease. The renewed lease expires on June 30, 2018. For the nine months ended September 30, 2016 and 2015, rent expense related to the JSJ Lease amounted to \$1,140 and \$1,217, respectively. At September 30, 2016 and December 31, 2015, the unpaid rent was \$3,374 and \$2,311, respectively, which was included in due to related parties on the accompanying consolidated balance sheets.

The Company leased office space in the A’cheng district in Harbin (the “A’cheng Lease”) from HDS Development on March 20, 2002. The A’cheng Lease is for a term of 23 years and expires on March 19, 2025. Pursuant to the A’cheng Lease, lease payment shall be made as follows:

Period	Annual lease amount	Payment due date
March 2002 to February 2012	RMB 25,000	Before December 2012
March 2012 to February 2017	RMB 25,000	Before December 2017
March 2017 to March 2025	RMB 25,000	Before December 2025

For the nine months ended September 30, 2016 and 2015, rent expense related to the A’cheng Lease amounted \$2,726 and \$2,991, respectively. At September 30, 2016 and December 31, 2015, the unpaid rent was \$4,686 and \$1,926, respectively, which was included in due to related parties on the accompanying consolidated balance sheets.

Due to Shareholders

The Company’s officers and directors, from time to time, provided advances to the Company for working capital purpose. These advances are usually short-term in nature, non-interest bearing, unsecured and payable on demand. During the nine months ended September 30, 2016, Zhiguo Wang bought a vehicle for the Company in the amount of \$82,491. As of September 30, 2016 and December 31, 2015, the Company had \$104,845 and \$40,970 due to Zhiguo Wang, respectively, which was included in due to related parties on the accompanying consolidated balance sheets.

On May 15, 2015, the Company borrowed \$648,000 from Madame Qi through the issuance of a subordinated promissory note. The note bears 2% interest per annum and shall be payable on or before November 15, 2015 (“Due Date”). Interest payment shall be made with principal on Due Date. On September 28, 2015, Madame Qi and the Company agreed to extend the Due Date to January 31, 2016, with the remaining terms of the note unchanged. On January 15, 2016, the Company and Madame Qi entered into an agreement to further extend the Due Date of the note to December 31, 2016. During the nine months ended September 30, 2016, the Company made repayments of \$49,030 to Madame Qi. As of September 30, 2016, the total borrowings including the interest were \$619,371, which was included in due to related parties on the accompanying consolidated balance sheets.

Research and Development Agreement

The Company entered into a Technology Development Service Agreement dated January 1, 2010 (the “Technology Agreement”) with Kairun. The term of the Technology Agreement was two years. Under the Technology Agreement, Kairun provides the Company with testing and technologies regarding utilization of yew trees to extract taxol and develop higher concentration of taxol in the yew trees the Company grow and cultivate. For these services, the Company agreed to pay Kairun RMB200,000 (approximately \$32,000) after the technologies developed by Kairun are tested and approved by the Company. The Company will retain all intellectual property rights in connection with the technologies developed by Kairun. Kairun may not provide similar services to any other party without the Company’s prior written consent. In February 2012, we entered into a supplemental agreement with Kairun, extending the term of the Technology Agreement indefinitely until project results specified in the original Technology Agreement have been achieved. Kairun is owned directly and indirectly primarily by Mr. Wang and Madame Qi. As of September 30, 2016, Kairun has not yet completed the services provided for in the Technology Agreement and, therefore, no payment was made to Kairun.

NOTE 10 – SEGMENT INFORMATION

ASC 280 requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

For the three and nine months ended September 30, 2016 and 2015, the Company operated in five reportable business segments: (1) the TCM raw materials segment, consisting of the production and sale of yew raw materials or yew tree extracts used in the manufacture of TCM; (2) the yew tree segment, consisting of the growth and sale of yew tree seedlings and mature trees; (3) the handicrafts segment, consisting of the manufacture and sale of handicrafts and furniture made of yew timber; (4) the wood ear mushroom segment, consisting of the sale of wood ear mushroom; and (5) Others, currently consisting of the sale of yew candles, pine needle extracts and dietary supplement named "Auri Essence". The Company’s reportable segments are strategic business units that offer different products. They are managed separately based on the fundamental differences in their operations. All of the Company’s operations except the sales of dietary supplement are conducted in the PRC.

Information with respect to these reportable business segments for the three and nine months ended September 30, 2016 and 2015 was as follows:

	Three Months Ended, September 30,		Nine Months Ended, September 30,	
	2016	2015	2016	2015
Revenues:				
TCM raw materials	\$ 6,873,988	\$ 2,845,904	\$ 24,063,798	\$ 7,712,224
Yew trees	-	96,275	23,246	1,139,946
Handicrafts	1,087	15,417	97,560	110,131
Wood ear mushroom	-	134,962	-	1,439,634
Others	7,792,024	1,904,643	15,162,974	1,904,643
	<u>\$ 14,667,099</u>	<u>\$ 4,997,201</u>	<u>\$ 39,347,578</u>	<u>\$ 12,306,578</u>
Cost of revenues:				
TCM raw materials	5,618,504	1,586,981	19,820,917	3,582,502
Yew trees	-	18,460	19,458	326,996
Handicrafts	14,486	8,000	91,145	23,118
Wood ear mushroom	-	124,547	-	1,263,461
Others	7,615,077	1,840,055	14,953,804	1,840,055
	<u>\$ 13,248,067</u>	<u>\$ 3,578,043</u>	<u>\$ 34,885,324</u>	<u>\$ 7,036,132</u>
Depreciation and amortization:				
TCM raw materials	-	643	83,739	269,009
Yew trees	67,056	143,096	93,807	152,686
Handicrafts	6,501	6,926	19,766	21,109
Wood ear mushroom	-	-	-	-
Others	(19,294)	31,061	21,747	63,072
	<u>\$ 54,263</u>	<u>\$ 181,726</u>	<u>\$ 219,059</u>	<u>\$ 505,876</u>
Net income (loss):				
TCM raw materials	1,255,483	1,258,923	4,242,881	4,129,722
Yew trees	(26)	77,815	3,788	812,950
Handicrafts	(13,399)	7,417	6,415	87,013
Wood ear mushroom	-	10,415	-	176,173
Others	(161,520)	(421,056)	(815,939)	(1,308,298)
	<u>\$ 1,080,538</u>	<u>\$ 933,514</u>	<u>\$ 3,437,145</u>	<u>\$ 3,897,560</u>

	September 30, 2016					
	TCM raw materials	Yew trees	Handicrafts	Wood ear mushroom	Others	Total
Identifiable long-lived assets, net	\$ 4,579,660	\$ 757,679	\$ 12,925	\$ -	\$ 229,439	\$ 5,579,703

	December 31, 2015					
	TCM raw materials	Yew trees	Handicrafts	Wood ear mushroom	Others	Total
Identifiable long-lived assets, net	\$ 13,602,178	\$ 816,926	\$ 33,316	\$ -	\$ 156,723	\$ 14,609,143

The Company does not allocate any selling, general and administrative expenses, other income/expenses to its reportable segments because these activities are managed at a corporate level. In addition, the specified amounts for interest expense and income tax expense are not included in the measure of segment profit or loss reviewed by the chief operating decision maker and these specified amounts are not regularly provided to the chief operating decision maker. Therefore, the Company has not disclosed interest expense and income tax expense for each reportable segment.

Asset information by reportable segment is not reported to or reviewed by the chief operating decision maker and, therefore, the Company has not disclosed asset information for each reportable segment. The Company's operations are located in the PRC. All revenues are derived from customers in the PRC. All of the Company's operating assets are located in the PRC.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Operating Lease

On February 1, 2015, the Company entered into a lease for its U.S. principal office space in California. Pursuant to the office lease, the monthly payment of \$3,261 is due on the first day of each month of the first year, and \$3,372 for each month of the second year. The term of the lease is for 3 years and expires on January 31, 2018. For the nine months ended September 30, 2016 and 2015, rent expense related to the U.S. principal office lease amounted to \$30,352 and \$26,090, respectively.

See Note 9 for related party operating lease commitments.

Seedling Purchase and Sale Long-Term Cooperation Agreement

On November 25, 2010, HDS entered into a Seedling Purchase and Sale Long-Term Cooperation Agreement (the "Seedling Agreement") with Wuchang City Xinlin Forestry Co., Ltd ("Xinlin"), a related party of the Company, pursuant to which HDS will sell yew seedlings to Xinlin at a price equal to 90% of HDS's publicly-published wholesale prices. Xinlin has agreed to purchase from the Company 10,000 yew seedlings annually. For the nine months ended September 30, 2016 and 2015, the Company didn't make sales under the Seedling Agreement.

NOTE 12 – RECENT ACCOUNTING PRONOUNCEMENTS

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing". The amendments in this ASU add further guidance on identifying performance obligations and also to improve the operability and understandability of the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients". The amendments in this ASU, among other things: (1) clarify the objective of the collectibility criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The effective date of these amendments is at the same date that Topic 606 is effective. Topic 606 is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”. These amendments provide cash flow statement classification guidance for: 1. Debt Prepayment or Debt Extinguishment Costs; 2. Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; 3. Contingent Consideration Payments Made after a Business Combination; 4. Proceeds from the Settlement of Insurance Claims; 5. Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies; 6. Distributions Received from Equity Method Investees; 7. Beneficial Interests in Securitization Transactions; and 8. Separately Identifiable Cash Flows and Application of the Predominance Principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application is permitted, including adoption in an interim period. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In September 2016, the FASB issued ASU 2016-17, “Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control”. These amendments change the evaluation of whether a reporting entity is the primary beneficiary of a variable interest entity by changing how a reporting entity that is a single decision maker of a variable interest entity treats indirect interests in the entity held through related parties that are under common control with the reporting entity. If a reporting entity satisfies the first characteristic of a primary beneficiary (such that it is the single decision maker of a variable interest entity), the amendments require that reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, to include all of its direct variable interests in a variable interest entity and, on a proportionate basis, its indirect variable interests in a variable interest entity held through related parties, including related parties that are under common control with the reporting entity. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity adopts the pending content that links to this paragraph in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

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

The following discussion of our consolidated results of operations and cash flows for the nine months ended September 30, 2016 and 2015, and consolidated financial conditions as of September 30, 2016 and December 31, 2015 should be read in conjunction with our unaudited consolidated financial statements and the related notes included elsewhere in this document.

Overview

We are a major grower and seller of yew trees and manufacturer of products made from yew trees, including handicrafts. We also sell branches and leaves of yew trees for the manufacture of TCM containing taxol, which TCM has been approved in the PRC for use as a secondary treatment of certain cancers, meaning it must be administered in combination with other pharmaceutical drugs. The yew industry is highly regulated in the PRC because the Northeast yew tree is considered an endangered species. We also started to sell yew candles, pine needle extracts and dietary supplement from the third and fourth quarters of 2015.

For the three and nine months ended September 30, 2016 and 2015, we operated in five reportable business segments: (1) the TCM raw materials segment, consisting of the production and sale of yew raw materials or yew tree extracts used in the manufacture of TCM; (2) the yew tree segment, consisting of the growth and sale of yew tree seedlings and mature trees; (3) the handicrafts segment, consisting of the manufacture and sale of handicrafts and furniture made of yew timber; (4) the wood ear mushroom segment, consisting of the sale of wood ear mushroom; and (5) the "Others" segment, consisting of the sales of yew candles, pine needle extracts and dietary supplement named "Auri Essence". Our reportable segments are strategic business units that offer different products. The five business segments are managed separately based on the fundamental differences in their operations. All of the Company's operations except for the dietary supplement sales are conducted in the PRC for the three and nine months ended September 30, 2016.

For the nine months ended September 30, 2016, revenues from the sales of TCM raw materials represented approximately 61.16% of consolidated revenue (including 61.16% of consolidated revenues from a related party); sales of yew trees represented approximately 0.06% of consolidated revenue; sales of wood ear mushroom represented approximately 0% of consolidated revenue; sales of handicrafts represented approximately 0.25% of consolidated revenue; and the sales of others represented approximately 38.54% of consolidated revenue. For the nine months ended September 30, 2015, revenues from the sales of TCM raw materials represented approximately 62.7% of consolidated revenue (including 44.0% of consolidated revenues from a related party); sales of yew trees represented approximately 9.3% of consolidated revenue; sales of wood ear mushroom represented approximately 11.7% of consolidated revenue; sales of handicrafts represented approximately 0.9% of consolidated revenue; and the sales of others represented approximately 15.5% of consolidated revenue.

For the three months ended September 30, 2016, revenues from the sales of TCM raw materials represented approximately 46.87% of consolidated revenue (including 46.87% of consolidated revenues from a related party); sales of yew trees represented approximately 0% of consolidated revenue; sales of wood ear mushroom represented approximately 0% of consolidated revenue; sales of handicrafts represented approximately 0.01% of consolidated revenue; and the sales of others represented approximately 53.13% of consolidated revenue. For the three months ended September 30, 2015, revenues from the sales of TCM raw materials represented approximately 56.9% of consolidated revenue (including 57% of consolidated revenues from a related party); sales of yew trees represented approximately 1.9% of consolidated revenue; sales of wood ear mushroom represented approximately 2.7% of consolidated revenue; sales of handicrafts represented approximately 0.3% of consolidated revenue; and the sales of others represented approximately 38.1% of consolidated revenue.

YBP's revenues were mostly generated by HDS and in the PRC. The expenses (approximately \$565,747 and \$1,052,160 for the nine months ended September 30, 2016 and 2015, respectively) incurred in the U.S. were primarily related to fulfilling the reporting requirements of public listed company, stock-based compensation, office daily operations and other costs. As of September 30, 2016, YBP had approximately \$1,260,080 in cash and held the 100% equity interests in its subsidiaries Yew HK and JSJ. Yew HK itself has no business operations or assets other than holding of equity interests in JSJ. JSJ has no business operations and assets with a book value of approximately \$3,350, including approximately \$3,350 in cash at September 30, 2016. JSJ also holds the VIE interests in HDS through the contractual arrangements (the "Contractual Arrangements") described in Notes to Consolidated Financial Statements. On November 4, 2014, HDS established a new subsidiary, Harbin Yew Food Co. LTD. ("HYF"), to develop and cultivate wood ear mushroom. As of June 30, 2016, HYF had started pilot production but there was not sales yet. In the event that we are unable to enforce the Contractual Agreements, we may not be able to exert effective control over HDS and HYF, and our ability to conduct our business may be materially and adversely affected. If the applicable PRC authorities invalidate our Contractual Agreements for any violation of PRC laws, rules and regulations, we would lose control of the VIE and its subsidiary resulting in its deconsolidation in financial reporting and severe loss in our market valuation.

Critical accounting policies and estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including those related to bad debts, allowance for obsolete inventory, and the classification of short and long-term inventory, the useful life of property and equipment and intangible assets, recovery of long-lived assets, income taxes, write-down in value of inventory, and the valuation of equity transactions. We base our estimates on historical experience and on various other assumptions that we 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. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our significant judgments and estimates used in the preparation of the financial statements.

Variable interest entities

Pursuant to ASC 810 and related subtopics related to the consolidation of variable interest entities, we are required to include in our consolidated financial statements the financial statements of VIEs. The accounting standards require a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss for the VIE or is entitled to receive a majority of the VIE's residual returns. VIEs are those entities in which we, through contractual arrangements, bear the risk of, and enjoy the rewards normally associated with ownership of the entity, and therefore we are the primary beneficiary of the entity. HDS is considered a VIE, and we are the primary beneficiary. We entered into agreements with HDS pursuant to which we shall receive 100% of HDS's net income. In accordance with these agreements, HDS shall pay consulting fees equal to 100% of its net income to our wholly-owned subsidiary, JSJ. JSJ shall supply the technology and administrative services needed to service the HDS.

The accounts of HDS are consolidated in the accompanying financial statements. As a VIE, HDS' sales are included in our total sales, its income from operations is consolidated with ours, and our net income includes all of HDS' net income, and their assets and liabilities are included in our consolidated balance sheets. The VIEs do not have any non-controlling interest and, accordingly, we did not subtract any net income in calculating the net income attributable to us. Because of the contractual arrangements, we have pecuniary interest in HDS that requires consolidation of HDS' financial statements with our financial statements.

As required by ASC 810-10, we perform a qualitative assessment to determine whether we are the primary beneficiary of HDS which is identified as a VIE of us. A quality assessment begins with an understanding of the nature of the risks in the entity as well as the nature of the entity's activities including terms of the contracts entered into by the entity, ownership interests issued by the entity and the parties involved in the design of the entity. The significant terms of the agreements between us and HDS are discussed above in the "Corporate Structure and Recapitalization - Second Restructure" section. Our assessment on the involvement with HDS reveals that we have the absolute power to direct the most significant activities that impact the economic performance of HDS. JSJ, our wholly own subsidiary, is obligated to absorb a majority of the risk of loss from HDS activities and is entitled to receive a majority of HDS's expected residual returns. In addition, HDS' shareholders have pledged their equity interest in HDS to JSJ, irrevocably granted JSJ an exclusive option to purchase, to the extent permitted under PRC Law, all or part of the equity interests in HDS and agreed to entrust all the rights to exercise their voting power to the person(s) appointed by JSJ. Under the accounting guidance, we are deemed to be the primary beneficiary of HDS and the results of HDS' operation are consolidated in our consolidated financial statements for financial reporting purposes.

Accordingly, as a VIE, HDS' sales are included in our total sales, its income from operations is consolidated with our income from operations and our net income includes all of HDS' net income. All the equity (net assets) and profits (losses) of HDS are attributed to us. Therefore, no non-controlling interest in HDS is presented in our consolidated financial statements. As we do not have any non-controlling interest and, accordingly, did not subtract any net income in calculating the net income attributable to us. Because of the Contractual Arrangements, YBP has a pecuniary interest in HDS that requires consolidation of HDS' financial statements with those of ours.

Additionally, pursuant to ASC 805, as YBP and HDS are under the common control of the HDS Shareholders, the Second Restructure was accounted for in a manner similar to a pooling of interests. As a result, our historical amounts in the accompanying consolidated financial statements give retrospective effect to the Second Restructure, whereby our assets and liabilities are reflected at the historical carrying values and their operations are presented as if they were consolidated for all periods presented, with our results of operations being consolidated from the date of the Second Transfer Agreement. The accounts of HDS are consolidated in the accompanying financial statements.

Accounts receivable

Accounts receivable are presented net of an allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses. We review the accounts receivable balance on a periodic basis and make general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, we consider many factors, including the age of the balance, a customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. We recognize the probability of the collection for each customer and believe the amount of the balance as of September 30, 2016 could be collected and accordingly, based on a review of our outstanding balances, we did not record any allowance for doubtful accounts.

Inventories

Inventories consisted of raw materials, work-in-progress, finished goods-handicrafts, yew seedlings, yew candles and other trees (consisting of larix, spruce and poplar trees). We classify our inventories based on our historical and anticipated levels of sales; any inventory in excess of its normal operating cycle of one year is classified as long-term on our consolidated balance sheets. Inventories are stated at the lower of cost or market value utilizing the weighted average method. Raw materials primarily include yew timber used in the production of products such as handicrafts, furniture and other products containing yew timber. Finished goods-handicraft and yew seedlings include direct materials, direct labor and an appropriate proportion of overhead.

We estimate the amount of the excess inventories by comparing inventory on hand with the estimated sales that can be sold within our normal operating cycle of one year. Any inventory in excess of our current requirements based on historical and anticipated levels of sales is classified as long-term on our consolidated balance sheets. Our classification of long-term inventory requires us to estimate the portion of inventory that can be realized over the next 12 months.

To estimate the amount of slow-moving or obsolete inventories, we analyze movement of our products, monitor competing products and technologies and evaluate acceptance of our products. Periodically, we identify inventories that cannot be sold at all or can only be sold at deeply discounted prices. An allowance will be established if management determines that certain inventories may not be saleable. If inventory costs exceed expected market value due to obsolescence or quantities in excess of expected demand, we will record reserves for the difference between the carrying cost and the estimated market value.

Our handicraft and yew furniture products are hand-made by traditional Chinese artisans.

In accordance with ASC 905, "Agriculture", our costs of growing yew seedlings are accumulated until the time of harvest and are reported at the lower of cost or market.

Property and equipment

Property and equipment are carried at cost and are depreciated on a straight-line basis (after taking into account their respective estimated residual value) over the estimated useful lives of the assets. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition. We examine the possibility of decreases in the value of fixed assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable. The estimated useful lives are as follows:

Building	15 years
Machinery and equipment	10 years
Office equipment	3 years
Leasehold improvement	5 years
Motor vehicles	4 years

Land use rights and yew forest assets

All land in the PRC is owned by the PRC government and cannot be sold to any individual or company. We have recorded the amounts paid to the PRC government to acquire long-term interests to utilize land and yew forests as land use rights and yew forest assets. This type of arrangement is common for the use of land in the PRC. Yew trees on land containing yew tree forests are used to supply raw materials such as branches, leaves and fruit to us that will be used to manufacture our products. We amortize these land and yew forest use rights over the term of the respective land and yew forest use right, which ranges from 45 to 50 years. The lease agreements do not have any renewal option and we have no further obligations to the lessor. We record the amortization of these land and forest use rights as part of our cost of revenues.

Revenue recognition

We generate our revenue from sales of yew seedling products, sales of yew raw materials for medical application, sales of yew handicraft products, sales of "Others" including yew candles, pine needle extracts and dietary supplement and sales of wood ear mushroom. Pursuant to the guidance of ASC 605 and ASC 360, we recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the purchase price is fixed or determinable and collectability is reasonably assured, and no significant obligations remain.

Income taxes

We are governed by the Income Tax Law of the PRC, Hong Kong and the United States. We account for income tax using the liability method prescribed by ASC 740, "Income Taxes". Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence; it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

We apply the provisions of ASC 740-10-50, “Accounting for Uncertainty in Income Taxes”, which provides clarification related to the process associated with accounting for uncertain tax positions recognized in our financial statements. Audit periods remain open for review until the statute of limitations has passed. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to our liability for income taxes. Any such adjustment could be material to our results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. Currently, we have no uncertain tax positions, and will continue to evaluate for uncertain positions in the future.

Stock-based compensation

Stock based compensation is accounted for based on the requirements of the Share-Based Payment topic of ASC 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award. The Accounting Standards Codification also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the “measurement date.” The expense is recognized over the period of services or the vesting period, whichever is applicable. Until the measurement date is reached, the total amount of compensation expense remains uncertain. We record compensation expense based on the fair value of the award at the reporting date. The awards to consultants and other third-parties are then revalued, or the total compensation is recalculated based on the then current fair value, at each subsequent reporting date.

Recent accounting pronouncements

In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”. The amendments in this ASU add further guidance on identifying performance obligations and also to improve the operability and understandability of the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients”. The amendments in this ASU, among other things: (1) clarify the objective of the collectibility criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The effective date of these amendments is at the same date that Topic 606 is effective. Topic 606 is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

Currency exchange rates

Our functional currency is the U.S. dollar, and the functional currency of our operating subsidiaries and VIE is the RMB. All of our sales are denominated in RMB. As a result, changes in the relative values of U.S. dollars and RMB affect our reported levels of revenues and profitability as the results of our operations are translated into U.S. dollars for reporting purposes. In particular, fluctuations in currency exchange rates could have a significant impact on our financial stability due to a mismatch among various foreign currency-denominated sales and costs. Fluctuations in exchange rates between the U.S. dollar and RMB affect our gross and net profit margins and could result in foreign exchange and operating losses.

Our exposure to foreign exchange risk primarily relates to currency gains or losses resulting from timing differences between signing of sales contracts and settling of these contracts. Furthermore, we translate monetary assets and liabilities denominated in other currencies into RMB, the functional currency of our operating subsidiaries. Our results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in our statement of shareholders' equity. We have not used any forward contracts, currency options or borrowings to hedge our exposure to foreign currency exchange risk. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

Our financial statements are expressed in U.S. dollars, which is the functional currency of our parent company. The functional currency of our operating subsidiaries and affiliates is RMB. To the extent we hold assets denominated in U.S. dollars, any appreciation of the RMB against the U.S. dollar could result in a charge in our statement of operations and a reduction in the value of our U.S. dollar denominated assets. On the other hand, a decline in the value of RMB against the U.S. dollar could reduce the U.S. dollar equivalent amounts of our financial results.

Recently enacted JOBS Act

We qualify as an "emerging growth company" under the recently enacted JOBS Act. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. For so long as we are an emerging growth company, among other things, we will not be required to:

- Have an auditor report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- Submit certain executive compensation matters to shareholder advisory votes, such as "say-on-pay" and "say-on-frequency";
- Obtain shareholder approval of any golden parachute payments not previously approved; and
- Disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive's compensation to median employee compensation.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards.

We will remain an “emerging growth company” for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our total annual gross revenues exceed \$1 billion; (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Securities Exchange Act of 1934, which would occur if the market value of our ordinary shares that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three-year period.

Until such time, however, because the JOBS Act has only recently been enacted, we cannot predict whether investors will find our stock less attractive because of the more limited disclosure requirements that we may be entitled to follow and other exemptions on which we are relying while we are an “emerging growth company”. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Results of Operations

The following tables set forth key components of our results of operations for the periods indicated, in dollars. The discussion following the table is based on these results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues - third parties	\$ 7,793,111	\$ 1,997,998	\$ 15,283,780	\$ 5,437,593
Revenues - related party	6,873,988	2,999,203	24,063,798	6,868,985
Total revenues	14,667,099	4,997,201	39,347,578	12,306,578
Cost of revenues - third parties	7,650,346	1,900,418	15,085,190	3,807,777
Cost of revenues - related party	5,597,721	1,677,625	19,800,134	3,228,355
Total cost of revenues	13,248,067	3,578,043	34,885,324	7,036,132
Gross profit	1,419,032	1,419,158	4,462,254	5,270,446
Operating expenses	299,517	484,573	956,674	1,441,114
Income from operations	1,119,515	934,585	3,505,580	3,829,332
Other income (expenses)	(38,977)	3,000	(68,435)	115,428
Net income before income taxes	1,080,538	937,585	3,437,145	3,944,760
Income taxes	-	(4,071)	-	(47,200)
Net income	1,080,538	933,514	3,437,145	3,897,560
Other comprehensive income:				
Foreign currency translation adjustment	(198,125)	(1,071,546)	(1,096,794)	(1,319,999)
Comprehensive income	\$ 882,413	\$ (768,032)	\$ 2,340,351	\$ 2,577,561

Three and Nine Months Ended September 30, 2016 Compared to Three and Nine Months Ended September 30, 2015

Revenues

For the three months ended September 30, 2016, we had total revenues of \$14,667,099, as compared to \$4,997,201 for the three months ended September 30, 2015, an increase of \$9,669,898 or 194%. The increase in total revenue was attributable to the increase in revenues from TCM raw materials and the “Others” segments.

For the nine months ended September 30, 2016, we had total revenues of \$39,347,578, as compared to \$12,306,578 for the nine months ended September 30, 2015, an increase of \$27,041,000 or 220%. The increase in total revenue was attributable to the increase in revenues from TCM raw materials and the “Others” segments.

Total revenue is summarized as follows:

	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2016	2015		
TCM raw materials	\$ 6,873,988	\$ 2,845,904	\$ 4,028,084	142%
Yew trees	-	96,275	(96,275)	(100)%
Wood ear mushroom	-	134,962	(134,962)	(100)%
Handicrafts	1,087	15,417	(14,330)	93%
Others	7,792,024	1,904,643	5,887,381	309%
Total	\$ 14,667,099	\$ 4,997,201	\$ 9,669,898	194%

	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2016	2015		
TCM raw materials	\$ 24,063,798	\$ 7,712,224	\$ 16,351,574	212%
Yew trees	23,246	1,139,946	(1,116,700)	(98)%
Wood ear mushroom	-	1,439,634	(1,439,634)	(100)%
Handicrafts	97,560	110,131	(12,571)	(11)%
Others	15,162,974	1,904,643	13,258,331	696%
Total	\$ 39,347,578	\$ 12,306,578	\$ 27,041,000	220%

For the three months ended September 30, 2016 compared to September 30, 2015, the increase in revenue of TCM raw material was mainly attributable to the increase in demand from our related party, Yew Pharmaceutical. The decrease in revenue of yew tree was mainly attributable to the Company's strategy adjustment to reserve more yew trees for future TCM raw materials sales. The decrease in revenue of handicrafts was mainly attributable to the decrease in market demand and normal sales fluctuation. We did not have wood ear mushroom sales for the three months ended September 30, 2016 due to the decrease in market demand and we are still exploring on various customer bases. The "Others" segment includes the sales of yew candles, pine needle extracts and dietary supplement named "Auri Essence" that the Company started to sell in the third and fourth quarters of 2015. The increase in revenues of "Others" segment was mainly attributable to the increases with sales of yew candles and pine needle extracts.

For the nine months ended September 30, 2016 compared to September 30, 2015, the increase in revenue of TCM raw material was mainly attributable to the increase in demand from our related party, Yew Pharmaceutical. The decrease in revenue of yew tree was mainly attributable to the Company's strategy adjustment to reserve more yew trees for future TCM raw materials sales. The decrease in revenue of handicrafts was mainly attributable to the decrease in market demand and normal sales fluctuation. We did not have wood ear mushroom sales for the nine months ended September 30, 2016 due to the decrease in market demand and we are still exploring on various customer bases. During the nine months ended September 30, 2016, the "Others" segment includes the sales of yew candles, pine needle extracts and dietary supplement named "Auri Essence" that the Company started to sell in the third and fourth quarters of 2015. The increase in revenues of "Others" segment was mainly attributable to the increases with sales of yew candles and pine needle extracts.

Cost of Revenues

For the three months ended September 30, 2016, cost of revenues amounted to \$13,248,067 as compared to \$3,578,043 for the three months ended September 30, 2015, an increase of \$9,670,024 or 270%. For the three months ended September 30, 2016, cost of revenues accounted for 90% of total revenues compared to 72% of total revenues for the three months ended September 30, 2015.

For the Nine months ended September 30, 2016, cost of revenues amounted to \$34,885,324 as compared to \$7,036,132 for the Nine months ended September 30, 2015, an increase of \$27,849,192 or 396%. For the Nine months ended September 30, 2016, cost of revenues accounted for 89% of total revenues compared to 57% of total revenues for the nine months ended September 30, 2015.

Cost of revenues by product categories is as follows:

	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2016	2015		
TCM raw materials	\$ 5,618,504	\$ 1,586,981	\$ 4,031,523	254%
Yew trees	-	18,460	(18,460)	(100)%
Wood ear mushrooms	-	124,547	(124,547)	(100)%
Handicrafts	14,486	8,000	6,486	81%
Others	7,615,077	1,840,055	5,775,022	314%
Total	\$ 13,248,067	\$ 3,578,043	\$ 9,670,024	270%

	Nine Months Ended September 30,		Increase (Decrease)	Percentage Change
	2016	2015		
TCM raw materials	\$ 19,820,917	\$ 3,582,502	\$ 16,238,415	453%
Yew trees	19,458	326,996	(307,538)	(94)%
Wood ear mushrooms	-	1,263,461	(1,263,461)	(100)%
Handicrafts	91,145	23,118	68,027	294%
Others	14,953,804	1,840,055	13,113,749	713%
Total	\$ 34,885,324	\$ 7,036,132	\$ 27,849,192	396%

The increase in our cost of revenues for the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015 was primarily a result of the increase in costs of revenue in TCM raw materials and the “Others” segments and partially offset by decreasing in costs of revenue of wood ear mushroom segment.

The increase in cost of revenue in TCM raw material segment was primarily attributable to the increase in sales to our related party, Yew Pharmaceutical. We started to sell some TCM raw materials processed from the whole yew trees upon to our customer demand requirement from the third quarter of 2015 that eventually increased the unit cost of our TCM raw materials.

The decrease in cost of revenue in yew trees segment as compared to the three and nine months ended September 30, 2015 was mainly due to the decreased sales of yew trees.

The increase in cost of revenue in handicrafts for the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015 was primarily due to the differences of sales product mix.

We did not have wood ear mushroom sales for the three and nine months ended September 30, 2016 due to the decrease in market demand and we are still exploring on various customer bases.

The “Others” segment includes the sales of yew candles, pine needle extract and dietary supplement categories. The increase in cost of revenue in “Others” Segment as compared to the three and nine months ended September 30, 2015 was primarily attributable to the increased sales of yew candles and pine needle extract.

Gross Profit

For the three months ended September 30, 2016, gross profit was \$1,419,032 as compared to \$1,419,158 for the three months ended September 30, 2015, representing gross profit margins of 9.7% and 28.4%, respectively. For the nine months ended September 30, 2016, gross profit was \$4,462,254 as compared to \$5,270,446 for the nine months ended September 30, 2015, representing gross profit margins of 11.3% and 42.8%, respectively. Gross profit margins by categories are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	(Decrease) Increase	2016	2015	(Decrease) Increase
TCM raw materials	18.3%	44.2%	(25.9)%	17.6%	53.5%	(35.9)%
Yew trees	-%	80.8%	(80.8)%	16.3%	71.3%	(55.0)%
Wood ear mushrooms	-%	7.7%	(7.7)%	-%	12.2%	(12.2)%
Handicrafts	(12.3)%	48.1%	(60.4)%	6.6%	79.0%	(72.4)%
Others	2.3%	3.4%	(1.1)%	1.4%	3.4%	(2.0)%
Total	9.7%	28.4%	(18.7)%	11.3%	42.8%	(31.5)%

The decrease in our overall gross profit margin for the three and nine month ended September 30, 2016 as compared to the three and nine months ended September 30, 2015 was primarily attributable to the lower gross margin yields of TCM raw materials, Yew trees, Handicrafts and “Others”.

The decrease in our gross margin percentage related to the sale of TCM raw materials for the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015 was primarily attributable to the sales of TCM raw materials processed from the whole yew trees upon to our customer demand requirement starting from the third quarter of 2015 that eventually decreased the gross profit margin of TCM raw materials for the three and nine months ended September 30, 2016.

The decrease in our gross margin percentage related to the sale of yew trees for the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015 was primarily attributable to the Company’s strategy adjustment to reserve more yew trees for future TCM raw materials sales.

The decrease in our gross margin percentage related to the sale of handicrafts for the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015 were primarily attributable to the sales at costs for some handicrafts and the differences of sales product mix.

We did not have wood ear mushroom sales for the three and nine months ended September 30, 2016 due to the decrease in market demand and we are still exploring on various customer bases.

The decrease in our gross margin percentage of “Others” segment for the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015 was primarily attributable to the sales of pine needle extract that had a lower gross profit margin.

Selling Expenses

Selling expenses consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Salary and related benefit	\$ -	\$ 3,928	\$ -	\$ 12,272
Shipping and handling	-	-	-	-
Other	5,667	6,085	17,754	11,504
Total	\$ 5,667	\$ 10,013	\$ 17,754	\$ 23,776

For the three months ended September 30, 2016, selling expense was \$5,667 as compared to \$10,013 for the three months ended September 30, 2015, a decrease of \$4,346, or 43.40%. For the nine months ended September 30, 2016, selling expense was \$17,754 as compared to \$23,776 for the nine months ended September 30, 2015, a decrease of \$6,022, or 25.33%.

General and Administrative Expenses

For the three months ended September 30, 2016, general and administrative expenses amounted to \$293,850, as compared to \$474,560 for the three months ended September 30, 2015, a decrease of \$180,710, or 38.08%. For the nine months ended September 30, 2016, general and administrative expenses amounted to \$938,920, as compared to \$1,417,338 for the nine months ended September 30, 2015, a decrease of \$478,418, or 33.75%.

General and administrative expenses consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Compensation and related benefits	\$ 80,324	\$ 263,294	\$ 245,518	\$ 800,954
Depreciation	15,824	26,499	54,416	80,829
Travel and entertainment	25,747	19,698	64,182	52,016
Professional fees	42,976	21,583	150,396	143,293
Research and development	-	-	1,030	-
Other	128,979	143,486	423,378	340,246
Total	\$ 293,850	\$ 474,560	\$ 938,920	\$ 1,417,338

The decrease in our general and administrative expenses for the three and nine months ended September 30, 2016, as compared to the three and nine months ended September 30, 2015 was primarily attributable to the decrease in compensation and related benefits.

The changes in general and administrative expenses for the three and nine months ended September 30, 2016, as compared to the three and nine months ended September 30, 2015, consisted of the following:

- For the three months ended September 30, 2016, compensation and related benefits decreased by \$182,970, or 69.5%, as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, compensation and related benefits decreased by \$555,436, or 69.3%, as compared to the nine months ended September 30, 2015. The decrease in compensation and related benefits was mainly attributable to the decrease in stock-based compensation associated with related cost of issuance.
- For the three months ended September 30, 2016, depreciation decreased by \$10,675, or 40.3%, as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, depreciation decreased by \$26,413, or 32.7%, as compared to the nine months ended September 30, 2015.
- For the three months ended September 30, 2016, travel and entertainment increased by \$6,049, or 30.7% as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, increased by \$12,166, or 23.4%, as compared to the nine months ended September 30, 2015. The increase was primarily attributable to the increase in travels relating to business coordination.
- Professional fees consisted primarily of legal, accounting, investor relations and other fees associated with being a public company in the United States. For the three months ended September 30, 2016, professional fees increased by \$21,393, or 99.1%, as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, professional fees increased by \$7,103, or 5.0%, as compared to the nine months ended September 30, 2015.
- For the three months ended September 30, 2016, other miscellaneous general and administrative expenses decreased by \$14,507, or 10.1%, as compared to the three months ended September 30, 2015. For the nine months ended September 30, 2016, other miscellaneous general and administrative expenses increased by \$83,132, or 24.4%, as compared to the nine months ended September 30, 2015. The increase was primarily attributable to associated cost of the Company's new U.S. principal executive office that was established in California during the first half year of 2015. We started to spend costs to maintain the operation of our U.S. office and explore for various business opportunities.

Income from Operations

For the three months ended September 30, 2016, income from operations was \$1,119,515, as compared to income from operations of \$934,585 for the three months ended September 30, 2015, an increase of \$184,930, or 19.79%. The increase was primarily attributable to the increases in sales of revenue from TCM raw materials and "Others" segments.

For the nine months ended September 30, 2016, income from operations was \$3,505,580, as compared to income from operations of \$3,829,332 for the nine months ended September 30, 2015, a decrease of \$323,752, or 8.45%. The decrease was primarily attributable to the decreased gross profit in the first nine months of 2016.

Other Income (Expenses)

For the three months ended September 30, 2016, total other expense was \$38,977 as compared to total other income of \$3,000 for the three months ended September 30, 2015.

For the nine months ended September 30, 2016, total other expense was \$68,435 as compared to total other income of \$115,428 for the nine months ended September 30, 2015.

Net Income

As a result of the factors described above, our net income was \$1,080,538 or \$0.02 (basic and diluted), for the three months ended September 30, 2016, as compared to net income of \$933,514 or \$0.02 (basic and diluted), for the three months ended September 30, 2015. As a result of the factors described above, our net income was \$3,437,145 or \$0.07 (basic and diluted), for the nine months ended September 30, 2016, as compared to net income of \$3,897,560 or \$0.07 (basic and diluted), for the nine months ended September 30, 2015.

Foreign Currency Translation Adjustment

For the three months ended September 30, 2016, we reported an unrealized loss on foreign currency translation of \$198,125, as compared to a loss of \$1,701,546 for the three months ended September 30, 2015. For the nine months ended September 30, 2016, we reported an unrealized loss on foreign currency translation of \$1,096,794, as compared to a loss of \$1,319,999 for the nine months ended September 30, 2015. The change reflects the effect of the value of the U.S. dollar in relation to the RMB. These gains and loss are non-cash items. As described elsewhere herein, the functional currency of our subsidiary, JSJ, and our VIE, HDS, is the RMB. The accompanying consolidated financial statements have been translated and presented in U.S. dollars using period end rates of exchange for assets and liabilities, and average rates of exchange for the period for net revenues, costs, and expenses. Net gains resulting from foreign exchange transactions, if any, are included in the consolidated statements of income.

Comprehensive Income

For the three months ended September 30, 2016, comprehensive income of \$882,413 was derived from the sum of our net income of \$1,080,538 with foreign currency translation loss of \$198,125. For the three months ended September 30, 2015, comprehensive loss of \$768,032 was derived from the sum of our net income of \$933,514 with foreign currency translation loss of \$1,701,546.

For the nine months ended September 30, 2016, comprehensive income of \$2,340,351 was derived from the sum of our net income of \$3,437,145 with foreign currency translation loss of \$1,096,794. For the nine months ended September 30, 2015, comprehensive income of \$2,577,561 was derived from the sum of our net income of \$3,897,560 with foreign currency translation loss of \$1,319,999.

Segment Information

For the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015, we operated in five reportable business segments: (1) the TCM raw materials segment, consisting of the production and sale of yew raw materials and yew tree extracts used in the manufacture of TCM; (2) the yew tree segment, consisting of the growth and sale of yew tree seedlings and mature trees; (3) the handicrafts segment, consisting of the manufacture and sale of furniture and handicrafts made of yew timber; (4) the wood ear mushroom segment, consisting of the sale of wood ear mushroom; and (5) the “Others” segment, consisting of the sales of yew candles, pine needle extracts and dietary supplement. Our reportable segments are strategic business units that offer different products. The five business segments are managed separately based on the fundamental differences in their operations. All of the Company’s operations except the sales of dietary supplement named “Auri Essence” are conducted in the PRC.

Information with respect to these reportable business segments for the three months ended September 30, 2016 and 2015 was as follows:

	For the three months ended September 30, 2016			For the three months ended September 30, 2015		
	Revenues- third parties	Revenues – related party	Total	Revenues- third parties	Revenues – related party	Total
Revenues:						
TCM raw materials	\$ -	\$ 6,873,988	\$ 6,873,988	\$ -	\$ 2,845,904	\$ 2,845,904
Yew trees	-	-	-	96,275	-	96,275
Handicrafts	1,087	-	1,087	2,908	12,509	15,417
Wood ear mushroom	-	-	-	-	134,962	134,962
Others	7,792,024	-	7,792,024	1,904,643	-	1,904,643
Total revenues	\$ 7,793,111	\$ 6,873,988	\$ 14,667,099	\$ 2,003,826	\$ 2,993,375	\$ 4,997,201
Cost of Revenues						
TCM raw materials	\$ -	\$ 5,618,504	\$ 5,618,504	\$ -	\$ 1,586,981	\$ 1,586,981
Yew trees	-	-	-	18,460	-	18,460
Handicrafts	14,486	-	14,486	2,111	5,889	8,000
Wood ear mushroom	-	-	-	-	124,547	124,547
Others	7,615,077	-	7,615,077	1,840,055	-	1,840,055
Total cost of revenues	\$ 7,629,563	\$ 5,618,504	\$ 13,248,067	\$ 1,860,626	\$ 1,717,417	\$ 3,578,043

Information with respect to these reportable business segments for the nine months ended September 30, 2016 and 2015 was as follows:

	For the nine months ended September 30, 2016			For the nine months ended September 30, 2015		
	Revenues- third parties	Revenues – related party	Total	Revenues- third parties	Revenues – related party	Total
Revenues:						
TCM raw materials	\$ -	\$ 24,063,798	\$ 24,063,798	\$ 2,301,210	\$ 5,411,014	\$ 7,712,224
Yew trees	23,246	-	23,246	1,139,946	-	1,139,946
Handicrafts	97,560	-	97,560	97,622	12,509	110,131
Wood ear mushroom	-	-	-	-	1,439,634	1,439,634
Others	15,162,974	-	15,162,974	1,904,643	-	1,904,643
Total revenues	\$ 15,283,780	\$ 24,063,798	\$ 39,347,578	\$ 5,443,421	\$ 6,863,157	\$ 12,306,578
Cost of sales:						
TCM raw materials	\$ -	\$ 19,820,917	\$ 19,820,917	\$ 1,583,705	\$ 1,998,797	\$ 3,582,502
Yew trees	19,458	-	19,458	326,996	-	326,996
Handicrafts	91,145	-	91,145	17,229	5,889	23,118
Wood ear mushroom	-	-	-	-	1,263,461	1,263,461
Others	14,953,804	-	14,953,804	1,840,055	-	1,840,055
Total cost of revenues	\$ 15,064,407	\$ 19,820,917	\$ 34,885,324	\$ 3,767,985	\$ 3,268,147	\$ 7,036,132

TCM raw materials

During the three months ended September 30, 2016, we sold 76,513 kg of TCM raw materials as compared to 11,074 kg of TCM raw materials during the three months ended September 30, 2015, a 590.92% increase in sales volume primarily attributable to increase in sales volume to our related party, Yew Pharmaceutical.

During the nine months ended September 30, 2016, we sold 113,713 kg of TCM raw materials as compared to 23,954 kg of TCM raw materials during the nine months ended September 30, 2015, a 374.71% increase in sales volume primarily attributable to increase in sales volume to our related party, Yew Pharmaceutical.

In February 2010, we began selling yew branches and leaves that are used in the production of TCM. On January 9, 2010, we entered into the Development Agreement with Yew Pharmaceutical, a related party, for the development, production and sale of yew-based TCM. Pursuant to the Development Agreement, we sell yew branches and leaves to Yew Pharmaceutical. Yew Pharmaceutical manufactures TCM at its own facilities in Harbin in accordance with the requirements of the Heilongjiang Food and Drug Administration (the “HFDA”). Yew Pharmaceutical is also responsible for producing the finished product in accordance with GMP requirements. In this regard, Yew Pharmaceutical received a GMP certificate in November 2009, and has filed all applications with, and obtained all approvals from, the HFDA.

For the three months ended September 30, 2016 and 2015, we had revenue of \$6,873,988 and \$2,845,904, respectively, from the sale of TCM raw materials to Yew Pharmaceutical. For the three months ended September 30, 2016 and 2015, revenue from the sale of TCM raw materials to third parties amounted to \$nil.

For the nine months ended September 30, 2016 and 2015, we had revenue of \$24,063,798 and \$5,411,014, respectively, from the sale of TCM raw materials to Yew Pharmaceutical. For the nine months ended September 30, 2016 and 2015, revenue from the sale of TCM raw materials to third parties amounted to \$nil and \$2,301,210, respectively.

Zi Shan is marketed and sold exclusively through Yew Pharmaceutical, under the Development Agreement. Yew Pharmaceutical is a major purchaser of our yew raw materials used in the production of TCM and is owned directly and indirectly primarily by Mr. Wang and Madame Qi.

Sales volume was summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales volume - third parties (kg)	-	-	-	3,080
Sales volume - related party (kg)	76,513	11,074	113,713	20,874
Total sales volume	76,513	11,074	113,713	23,954

Additionally, in order to ensure the sustainability of our yew forests, we closely monitor the growth rate of our yew trees. The amount of TCM raw materials we can sell is limited by the seasonal growth rate of our yew trees that are available for cutting branches and leaves. Over time, as more yew trees reach maturity, these limits may be increased.

Yew trees

During the three months ended September 30, 2016, we sold approximately 4,860 pieces of yew seedlings and trees, as compared to approximately 6,000 pieces of yew seedlings and trees for the three months ended September 30, 2015, a decrease in volume of 19%.

During the nine months ended September 30, 2016, we sold approximately 4,860 pieces of yew seedlings and trees, as compared to approximately 60,000 pieces of yew seedlings and trees for the nine months ended September 30, 2015, a decrease in volume of 91.9%.

The decrease in revenue of yew tree for the three and nine months ended September 30, 2016 was mainly attributable to the company’s strategy adjustment to reserve more yew trees for future TCM raw materials sales as compared to the three and nine months ended September 30, 2015.

In connection with our entering into a land use agreement in July 2012 (the “Fuye Field Agreement”), we acquired more than 80,000 trees – which are not yew trees – located on that property. These trees consist of approximately 20,000 larch, 56,700 spruce and 3,700 poplar trees. Larch trees are used primarily in landscaping and we began selling larch trees to customers during 2013. Spruce and poplar trees are used primarily as building materials. Since March 31, 2014, we began to sell spruce trees to customers and anticipate selling poplar trees in the next few years once these trees reach their maturities.

Handicrafts

During the three months ended September 30, 2016 and 2015, revenue from the sale of handicrafts made from yew timber amounted to \$1,087 and \$15,417, respectively, decrease of \$14,330, or 92.9%. During the nine months ended September 30, 2016 and 2015, revenue from the sale of handicrafts made from yew timber amounted to \$97,560 and \$110,131, respectively, decrease of \$12,571, or 11.41%. The decrease in revenues of handicrafts was mainly due to the decrease in market demand and normal sales fluctuation.

We continued to evaluate the effectiveness and design of our selling efforts in the handicraft segment which had included establishing the appropriate sales volume goals with our distributors to reach our desired sales volume of handicrafts.

Wood ear mushroom

During the three and nine months ended September 30, 2016, we did not make the sales of wood ear mushroom. As this is a newly introduced product category commenced during the fourth quarter of 2014, we are still seeking for various customer resources for this segment.

Others

During the three months ended September 30, 2016, we sold approximately 22,008 yew candles, 3,600 kilograms pine needle extracts and 385 bottles of “Auri Essence” in amount of \$8,142,621 to third party. During the nine months ended September 30, 2016, we sold approximately 30,408 yew candles, 6,960 kilograms pine needle extracts and 425 bottles of “Auri Essence” in amount of \$14,955,422 to third party.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. At September 30, 2016 and December 31, 2015, we had cash balances of \$1,260,081 and \$985,119, respectively. These funds are primarily located in various financial institutions located in China. Our primary uses of cash have been for the purchase of yew trees, land use rights and yew forest assets. Additionally, we use cash for employee compensation and working capital.

The following table sets forth information as to the principal changes in the components of our working capital from December 31, 2015 to September 30, 2016:

Category	September 31, 2016	December 31, 2015	December 31, 2015 to September 30, 2016	
			Change	Percentage change
Current assets:				
Cash	\$ 964,701	\$ 681,608	\$ 283,093	41.53%
Restricted cash	295,380	303,511	(8,131)	(2.68)%
Accounts receivable	8,564,463	3,857,968	4,706,495	121.99%
Accounts receivable – related party	3,546,845	6,489,495	(2,942,650)	(45.34)%
Inventories	12,570,532	4,665,549	7,904,983	169.43%
Prepaid expenses – related party	85,252	106,370	(21,118)	(19.85)%
Prepaid expenses and other assets	45,796	64,174	(18,378)	(28.64)%
VAT recoverables	2,554,246	699,258	1,854,988	265.28%
Current liabilities:				
Accounts payable	1,650,084	11,345	1,638,739	14,444.59%
Accounts payable – related party	290,506	41,319	249,187	603.08%
Accrued expenses and other payables	496,988	124,686	372,302	298.59%
Notes payable	590,760	607,022	(16,262)	(2.68)%
Taxes payable	13,774	14,261	(487)	(3.41)%
Due to related parties	827,157	761,236	65,921	8.66%
Short-term borrowing	2,998,779	3,081,332	(82,553)	(2.68)%
Working capital:				
Total current assets	\$ 28,627,215	\$ 16,867,933	\$ 11,759,282	69.71%
Total current liabilities	6,868,048	4,641,201	2,226,847	47.98%
Working capital	\$ 21,759,167	\$ 12,226,732	\$ 9,532,435	77.96%

Our working capital increased by \$9,532,435 to \$21,759,167 at September 30, 2016, from working capital of \$12,226,732 at December 31, 2015. This increase in working capital is primarily attributable to:

- an increase in accounts receivable of approximately \$4,706,000
- an increase in inventories of approximately \$7,904,000

partially offset by:

- a decrease in accounts receivable – related party of approximately \$2,942,000

For the nine months ended September 30, 2016, net cash flow provided by operating activities was \$361,987, as compared to net cash flow used in operating activities of \$1,207,208 for the nine months ended September 30, 2015, an increase of \$1,569,195. Because the exchange rate conversion is different for the balance sheet and the statements of cash flows, the changes in assets and liabilities reflected on the statements of cash flows are not necessarily identical with the comparable changes reflected on the balance sheets.

For the nine months ended September 30, 2016, net cash flow provided by operating activities of \$361,986 was primarily attributable to:

- net income of approximately \$3,437,145 adjusted for the add-back of non-cash items, such as depreciation of approximately \$89,000 and amortization of land use rights and yew forest assets of approximately \$8,784,000, stock-based compensation of approximately \$245,000; and
- the receipt of cash from operations from changes in operating assets and liabilities, such as a decrease in accounts receivable – related party of approximately \$2,806,000;

partially offset by:

- the use of cash from changes in operating assets and liabilities, such as an increase in accounts receivable of approximately \$4,873,000, an increase in inventory of approximately \$10,567,000 and an increase in VAT recoverables of approximately \$1,899,000.

For the nine months ended September 30, 2015, net cash flow used in operating activities was \$1,207,208, as compared to net cash flow provided by operating activities of \$3,495,168 for the nine months ended September 30, 2014, a decrease of \$4,702,376. Because the exchange rate conversion is different for the balance sheet and the statements of cash flows, the changes in assets and liabilities reflected on the statements of cash flows are not necessarily identical with the comparable changes reflected on the balance sheets.

For the nine months ended September 30, 2015, net cash flow used in operating activities of \$1,207,208 was primarily attributable to:

- net income of approximately \$3,897,560 adjusted for the add-back of non-cash items, such as depreciation of approximately \$113,000 and amortization of land use rights and yew forest assets of approximately \$1,109,000, stock-based compensation of approximately \$800,000, and issuance of common stock for professional service of approximately \$3,000; and
- the receipt of cash from operations from changes in operating assets and liabilities, such as a decrease in accounts receivable – related party of approximately \$340,000;

partially offset by:

- the use of cash from changes in operating assets and liabilities, such as an increase in accounts receivable of approximately \$784,000, an increase in VAT recoverables of approximately \$1,106,000, and an increase in inventories of approximately \$5,191,000.

Net cash flow used in investing activities was approximately \$7,000 for the nine months ended September 30, 2016. During the nine months ended September 30, 2016, we have made payment in approximately \$7,000 for purchase of property and equipment. Net cash flow used in investing activities was approximately \$1,370,000 for the nine months ended September 30, 2015. During the nine months ended September 30, 2015, we have made payment in approximately \$1,362,000 for land use right and yew forest assets.

Net cash flow used in financing activities was approximately \$48,000 for the nine months ended September 30, 2016 and consisted of proceeds of approximately \$181 from a related party and repayments of approximately \$49,000 to our related party. Net cash flow provided by financing activities was approximately \$2,295,000 for the nine months ended September 30, 2015 and consisted of proceeds of approximately \$1,642,000 from bank loan and approximately \$658,000 from our related parties.

We have historically financed our operations and capital expenditures through cash flows from operations, bank loans and advances from related parties. From March 2008 to September 2009, we received approximately \$2.9 million of proceeds in the aggregate from offerings and sales of our common stock. Except for the portion used to pay for professional and other expenses in the U.S., substantial portions of the proceeds we received through sales of our common stock were retained in the PRC and used to fund our working capital requirements. As the PRC government imposes controls on PRC companies' ability to convert RMB into foreign currencies and the remittance of currency out of China, from time to time, in order to fund our corporate activities in the U.S., Zhiguo Wang, our President and CEO, advanced funds to us in the U.S. and we repaid the amounts owed to him in RMB in the PRC.

It is management's intention to expand our operations as quickly as reasonably practicable to capitalize on the demand opportunity for our products. We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations and any potential available bank borrowings. We believe that we can continue meeting our cash funding requirements for our business in this manner over at least the next twelve months. The majority of our funds are maintained in RMB in bank accounts in China. We receive most of our revenue in the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies by complying with certain procedural requirements. However, approval from China's State Administration of Foreign Exchange ("SAFE") or its local counterparts is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions. As of September 30, 2016 and December 31, 2015, approximately \$40.8 million and \$41.8 million, respectively, of our net assets are located in the PRC. If the foreign exchange control system in the PRC prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to transfer funds deposited within the PRC to fund working capital requirements in the U.S. or pay any dividends in currencies other than the RMB, to our shareholders.

Contractual Obligations and Off-Balance Sheet Arrangements

We have certain potential commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our consolidated financial position, results of operations and cash flows.

The following tables summarize our contractual obligations as of September 30, 2016, and the effect these obligations are expected to have on our liquidity and cash flows in future periods:

Contractual Obligations:	Total	1 year	1-3 years	3-5 years	5+ years
Operating Leases	489,067	63,850	19,557	126,286	279,374
Total	489,067	63,850	19,557	126,286	279,374

Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rates Risk

Substantially most of our operating revenues and expenses are denominated in RMB. We operate using RMB and the effects of foreign currency fluctuations are largely mitigated because local expenses in the PRC are also denominated in the same currency. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments. Because we generally receive cash flows denominated in RMB, our exposure to foreign exchange risks should be limited.

Our assets and liabilities, of which the functional currency is the RMB, are translated into USD using the exchange rates in effect at the balance sheet date, resulting in translation adjustments that are reflected as cumulative translation adjustment in the shareholders' equity section on our consolidated balance sheets. A portion of our net assets are impacted by changes in foreign currencies translation rates in relation to the U.S. dollar. We recorded a foreign currency translation loss of \$1,096,794 and of \$1,319,999 for the nine months ended September 30, 2016 and September 30, 2015, respectively, to reflect the impact of the fluctuation of the RMB against the U.S. dollar.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of the RMB into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China.

To the extent that we decide to convert RMB denominated cash amounts into U.S. dollars for the purpose of making any dividend payments, which we have not declared but may declare in the future, or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. Conversely, if we need to convert U.S. dollars into RMB for operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount it received from the conversion. We have not used, and do not currently expect to use in the future, any forward contracts or currency borrowings to hedge exposure to foreign currency exchange risk.

Interest Rate Risk

We have not been, nor do we currently anticipate being, exposed to material risks due to changes in interest rates.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

The Company's management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting.

There have not been any changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II
OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any lawsuit or proceeding which, in the opinion of management, is likely to have a material adverse effect on us or our business.

ITEM 1A. RISK FACTORS

No material change.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are attached hereto and filed herewith:

31.1* Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.

31.2* Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.

32* Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS** XBRL Instance Document

101.SCH** XBRL Taxonomy Extension Schema Document

101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF** XBRL Taxonomy Extension Definition Linkbase Document

101.LAB** XBRL Taxonomy Extension Label Linkbase Document

101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith. XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURE

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

YEW BIO-PHARM GROUP, INC.

By: /s/ ZHIGUO WANG

Zhiguo Wang
Chief Financial Officer

Date: November 14, 2016

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
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*Filed herewith.

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Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, Zhiguo Wang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yew Bio-Pharm Group, Inc.;

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: November 14, 2016

/s/ ZHIGUO WANG

Zhiguo Wang
Chief Executive Officer

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934**

I, Zhiguo Wang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yew Bio-Pharm Group, Inc.;

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: November 14, 2016

/s/ ZHIGUO WANG

Zhiguo Wang
Chief Financial Officer

**Certification of Periodic Financial Report by the Chief Executive Officer and
Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Solely for the purposes of complying with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer and Chief Financial Officer of Yew Bio-Pharm Group, Inc. (the "Company"), hereby certifies, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2016 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2016

/s/ ZHIGUO WANG

Zhiguo Wang
Chief Executive Officer

Date: November 14, 2016

/s/ ZHIGUO WANG

Zhiguo Wang
Chief Financial Officer