Biostar Pharmaceuticals, Inc.
Form 10-Q
November 19, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the quarterly period ended: September 30, 2012

Or

¨ Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from _____ to _____

Commission File Number: 001-34708

BIOSTAR PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Maryland	20-8747899
(State or other jurisdiction of incorporation of origination)	(I.R.S. Employer Identification Number)
No. 588 Shiji Xi Avenue Xianyang, Shaanxi Province People's Republic of China	712046
(Address of principal executive offices)	(Zip code)

011-86-29-33686638
(Registrant's telephone number, including area code)

(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 x 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 x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

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

The Company had 9,993,549 shares issued and outstanding as of November 15, 2012.

Table of Contents

TABLE OF CONTENTS

TO QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED SEPTEMBER 30, 2012

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

BIOSTAR PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$12,119,565	$ 16,971,789
Accounts receivable	28,815,263	35,033,650
Inventories	985,274	1,373,459
Tax prepaid	451,121	-
Prepaid expenses and other receivables	5,390,773	7,129,911
Prepaid research and development expenses	789,390	-
Total Current Assets	48,551,386	60,508,809
Deposits	-	3,148,466
Deferred tax assets	3,328,228	1,617,688
Property and equipment, net	7,038,982	7,379,982
Intangible assets, net	9,390,806	10,406,931
Total Assets	$68,309,402	$ 83,061,876
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts and other payables	$3,644,084	$ 3,334,418
Short-term bank loans	-	787,116
Value-added tax payable	451,088	895,487
Income tax payable	92,677	1,643,155
Total Current Liabilities	4,187,849	6,660,176
Commitment and contingencies		
Stockholders' Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized, 9,993,549 and 9,400,216 shares issued and outstanding as of September 30, 2012 and December 31, 2011*	9,993	9,400
Additional paid-in capital	23,238,700	22,445,660
Statutory reserve	6,490,600	6,490,600
Retained earnings	30,219,062	43,473,834
Accumulated other comprehensive income	4,163,198	3,982,206
Total Stockholders' Equity	64,121,553	76,401,700
Total Liabilities and Stockholders' Equity	$68,309,402	$ 83,061,876

*Number of shares issued and outstanding retroactively reflects reverse stock split effective on April 3, 2012

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

Table of Contents

BIOSTAR PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Sales, net	$9,969,375	$24,779,420	$34,028,164	$65,980,481
Cost of sales	4,729,894	7,465,966	13,379,287	19,352,264
Gross profit	5,239,481	17,313,454	20,648,877	46,628,217
Operating expenses:				
Selling expenses	6,009,227	10,391,335	18,498,671	26,908,239
General and administrative expenses	2,640,240	983,778	5,124,789	4,103,154
Credits for negative publicity	-	-	7,904,513	-
Administrative penalty	1,596,174	-	1,596,174	-
Research and development expenses	789,702	-	2,370,605	-
Total operating expenses	11,035,343	11,375,113	35,494,752	31,011,393
(Loss) Income from operations	(5,795,862)	5,938,341	(14,845,875)	15,616,824
Other income (expense)				
Interest income	55,642	127,423	247,342	271,737
Interest expense	(1,059)	(2,984)	(33,193)	(10,371)
Other income	152	273	598	821
Total other income (expenses)	54,735	124,712	214,747	262,187
(Loss) Income before income taxes	(5,741,127)	6,063,053	(14,631,128)	15,879,011
Income tax expenses (benefits)	198,508	1,599,316	(1,376,356)	4,539,127
Net (loss) income	(5,939,635)	4,463,737	(13,254,772)	11,339,884
Other comprehensive income				
Foreign currency translation adjustment	(117,289)	640,119	180,992	1,733,586
Total comprehensive (loss) income	$(6,056,924)	$5,103,856	$(13,073,780)	$13,073,470
(Loss) Earnings per share, on net income				
Basic	$(0.63)	$0.47	$(1.41)	$1.22
Diluted	$(0.63)	$0.47	$(1.41)	$1.22
Weighted average number of common stock outstanding				

Basic	9,490,506	9,398,876	9,430,532	9,264,104
Diluted	9,490,506	9,398,876	9,430,532	9,264,104

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

Table of Contents

BIOSTAR PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (13,254,772)	$ 11,339,884
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax assets	(1,705,866)	-
Research and development expenses	2,370,605	-
Depreciation and amortization	1,368,205	396,267
Credits to accounts receivable due to negative publicity	7,904,513	-
Allowance for doubtful debts	962,399	-
Written off of property and equipment	21,704	-
Stock-based compensation and other non-cash expenses	793,633	1,642,413
Changes in operating assets and liabilities:		
Accounts receivable	(2,547,289)	(2,931,921)
Inventories	392,153	(1,448,494)
Prepaid expenses and other receivables	-	(14,757)
Tax prepaid	(451,121)	-
Accounts payable and accrued expenses	1,120,998	1,999,095
Value-added tax payable	(446,986)	(710,873)
Income tax payable	(1,555,225)	1,362,342
Exchange difference	11,583	213,924
Net cash (used in) provided by operating activities	(5,015,466)	11,847,880
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(32,784)	(105,488)
Balance payment for acquisition of business	(822,173)	-
Refund of deposit paid for acquisition of business *	-	928,361
Deposit paid for acquisition of proprietary technologies	-	(3,119,798)
Compensation received for disposed land use rights	1,760,341	-
Net cash provided by (used in) investing activities	905,384	(2,296,925)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loan	-	782,656
Advance from a shareholder	-	334,957
Repayment to a shareholder	-	(334,957)
Repayment for short-term bank loan	(791,176)	-
Net cash (used in) provided by financing activities	(791,176)	782,656
Effect of exchange rate changes on cash and cash equivalents	49,034	461,785
Net increase in cash and cash equivalents	(4,852,224)	10,795,396
Cash and cash equivalents, beginning balance	16,971,789	13,211,443

Cash and cash equivalents, ending balance	$ 12,119,565	$ 24,006,839
SUPPLEMENTAL DISCLOSURES:		
Income tax payments	$ (2,348,336)	$ (3,197,761)

* In October 2011, Aoxing Pharmaceutical entered into a Share Transfer Agreement to acquire Shaanxi Weinan from the holders of 100% of equity interest in Shannxi Weinan. The aggregate purchase price is RMB 61 million (approximately $9.55 million), in cash and payable in several tranches. The payment of $822,173 represents the last tranche which was included in "accounts and other payables" as of December 31, 2011.

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

Table of Contents

BIOSTAR PHARMACEUTICALS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - ORGANIZATION

Biostar Pharmaceuticals, Inc. ("Biostar" or the "Company") was incorporated in the State of Maryland on March 27, 2007. On June 15, 2007, Biostar formed Shaanxi Biostar Biotech Ltd. ("Shaanxi Biostar"). Shaanxi Biostar is a wholly owned subsidiary of Biostar and a limited liability company organized under the laws of the People's Republic of China (the "PRC").

On November 1, 2007, Shaanxi Biostar entered into a series of agreements including a Management Entrustment Agreement, a Shareholders' Voting Proxy Agreement, an Exclusive Option Agreement and a Share Pledge Agreement (collectively the "Agreements") with Shaanxi Aoxing Pharmaceutical Co., Ltd. ("Aoxing Pharmaceutical") and its registered owners (the "Transaction"). Aoxing Pharmaceutical is a corporation formed under the laws of the PRC. According to these Agreements, Shaanxi Biostar acquired management control of Aoxing Pharmaceutical whereby Shaanxi Biostar is entitled to all of the net profits of Aoxing Pharmaceutical as a management fee and is obligated to fund Aoxing Pharmaceutical's operations and pay all of the debts. In exchange for entering into the Agreements, on November 1, 2007, the Company issued 19,832,311 shares of its common stock to Aoxing Pharmaceutical's registered owners, representing approximately 90% of the Company's common stock outstanding immediately after the Transaction. Therefore, the Transaction is accounted for as a reverse acquisition, and Aoxing Pharmaceutical is deemed to be the accounting acquirer in the reverse acquisition.

On July 9, 2010, following to the change in registered owners of Aoxing Pharmaceutical, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on the same day.

The Agreements dated July 9, 2010 are merely replacement of the Agreements dated November 1, 2007 and therefore, there is no significant change in the contractual terms between the Agreements dated July 9, 2010 and November 1, 2007. The existing registered owners of Aoxing Pharmaceutical, Shaanxi Biostar and Biostar had mutually agreed that no consideration would be paid / payable upon the execution of the Agreements on July 9, 2010. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

The Agreements provide that Shaanxi Biostar has controlling interest in Aoxing Pharmaceutical as defined by Financial Accounting Standard Board ("FASB") Interpretation No. 46R "Consolidation of Variable Interest Entities", included in the FASB Accounting Standards Codification ("Codification") as Accounting Standards Codification ("ASC") 810, Consolidation, an Interpretation of Accounting Research Bulletin ("ARB") No. 51, included in the Codification as ASC 810, Consolidation, which requires Shaanxi Biostar to consolidate the financial statements of Aoxing Pharmaceutical and ultimately consolidate with its parent company, Biostar (see Note 2 "Principles of Consolidation").

In October 2011, Aoxing Pharmaceutical entered into and completed a Share Transfer Agreement to acquire Shaanxi Weinan Huaren Pharmaceuticals, Ltd. ("Shaanxi Weinan") from the holders of 100% of equity interests in Shaanxi Weinan. Therefore, Shaanxi Weinan became a wholly owned subsidiary of Aoxing Pharmaceutical. Shaanxi Weinan is engaged in manufacturing of drugs and health products.

The Company, through its subsidiary and the Agreements with Aoxing Pharmaceutical, is engaged in the business of developing, manufacturing and marketing over-the-counter ("OTC") and prescription pharmaceutical products in the PRC.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiary and variable interest entity (“VIE”) for which the Company is the primary beneficiary. All inter-company accounts and transactions have been eliminated in consolidation. The Company has adopted ASC 810, Consolidation which requires 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.

Table of Contents

In determining Aoxing Pharmaceutical is a VIE of Shaanxi Biostar, the Company considered the following indicators, among others:

- Shaanxi Biostar has the full right to control and administer the financial affairs and daily operation of Aoxing Pharmaceutical and has the right to manage and control all assets of Aoxing Pharmaceutical. The registered owners of Aoxing Pharmaceutical as a group have no right to make any decision about Aoxing Pharmaceutical's activities without the consent of Shaanxi Biostar.

- Shaanxi Biostar is assigned all voting rights of Aoxing Pharmaceutical and has the right to appoint all directors and senior management personnel of Aoxing Pharmaceutical. The registered owners of Aoxing Pharmaceutical possess no substantive voting rights.

- Shaanxi Biostar is committed to provide financial support if Aoxing Pharmaceutical requires additional funds to maintain its operations and to repay its debts.

- Shaanxi Biostar is entitled to a management fee equal to Aoxing Pharmaceutical's net profits and is obligated to assume all operation risks and bear all losses of Aoxing Pharmaceutical. Therefore, Shaanxi Biostar is the primary beneficiary of Aoxing Pharmaceutical.

Additional capital provided to Aoxing Pharmaceutical by the Company was recorded as an interest-free loan to Aoxing Pharmaceutical. There was no written note to this loan, the loan was not interest bearing, and was eliminated during consolidation. Under the terms of the Agreements, the registered owners of Aoxing Pharmaceutical are required to transfer their ownership of Aoxing Pharmaceutical to the Company's subsidiary in the PRC when permitted by the PRC laws and regulations or to designees of the Company at any time when the Company considers it is necessary to acquire Aoxing Pharmaceutical. In addition, the registered owners of Aoxing Pharmaceutical have pledged their shares in Aoxing Pharmaceutical as collateral to secure these Agreements.

Unaudited Interim Financial Information

These unaudited interim consolidated financial statements have been prepared in accordance with GAAP for interim financial reporting and the rules and regulations of the Securities and Exchange Commission that permit reduced disclosure for interim periods. Therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been made. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

The consolidated balance sheets and certain comparative information as of December 31, 2011 are derived from the audited consolidated financial statements and related notes for the year ended December 31, 2011 ("2011 Annual Financial Statements"), included in the Company's 2011 Annual Report on Form 10-K. These unaudited interim consolidated financial statements should be read in conjunction with the 2011 Annual Financial Statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used for, but not limited to, the accounting for certain items such as allowance for doubtful accounts, depreciation and amortization, impairment,

inventory allowance, taxes and contingencies.

Accounts Receivable

The Company maintains allowances for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these allowances. Terms of sales vary. Allowances are recorded primarily on a specific identification basis. Allowance for doubtful accounts amounted to $930,699, and $143,928 as of September 30, 2012 and December 31, 2011, respectively.

Table of Contents

Customer Credits Accounts receivable have been reduced by $7,904,513, representing credits issued to customers in August 2012. These credits were given to maintain the customers relationship following the negative publicity in the PRC related to medicines delivered in capsule form. Although the credits were not issued until August 2012, the press release by public media related to tainted capsules and the negative impact to our customers occurred in the second quarter of 2012, therefore this loss was recognized during the three months ended June 30, 2012.

Inventories

Inventories are valued at the lower of weighted average cost or market. Management compares the cost of inventories with the market value, and allowance is made for writing down the inventories to market value, if lower. Inventories consisted of the following:

	September 30, 2012 (Unaudited)	December 31, 2011
Raw materials	$ 650,159	$ 534,338
Work in process	141,628	135,510
Finished goods	193,487	187,286
Goods in transit	-	516,325
	$ 985,274	$ 1,373,459

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of:

Real property	30 years
Leasehold improvements	30 years
Machinery & equipment	5-10 years
Furniture & fixtures and vehicles	5-10 years

Property and equipment consisted of the following:

	September 30, 2012 (Unaudited)	December 31, 2011
Real property	$ 3,515,301	$ 3,515,301
Leasehold improvements	1,956,289	1,956,289
Machinery & equipment	1,159,495	1,131,235
Furniture & fixtures	66,282	66,282
Vehicles	129,225	157,239
Construction in progress	2,069,640	2,065,116
	8,896,232	8,891,462
Less: Accumulated depreciation	(1,857,250)	(1,511,480)
	$ 7,038,982	$ 7,379,982

As of September 30, 2012 and December 31, 2011, expenditures incurred for the construction of a raw material processing plant and a new production plant were $2,069,640 and $2,065,116, respectively.

Table of Contents

Intangible Assets

Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from ten to fifty years. Management evaluates the recoverability of intangible assets periodically and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. No impairments have been identified for the nine months ended September 30, 2012. The Company's land use rights will expire between 2053 and 2056. The Company's proprietary technologies, including drug approvals and permits, were mainly contributed by four ex-owners of Aoxing Pharmaceutical and acquired from Shaanxi Weinan acquisition. All of the Company's intangible assets are subject to amortization with estimated useful lives of:

Land use rights	50 years
Proprietary technologies	10 years

The components of finite-lived intangible assets are as follows:

	September 30, 2012 (Unaudited)	December 31, 2011
Land use rights	$ 3,406,406	$ 3,406,406
Proprietary technologies	8,851,814	8,851,814
	12,258,220	12,258,220
Less: Accumulated amortization	(2,867,414)	(1,851,289)
	$ 9,390,806	$ 10,406,931

The estimated future amortization expenses related to intangible assets as of September 30, 2012 are as follows:

Years Ending December 31,	
2012 (3 months)	$ 342,268
2013	1,369,071
2014	1,369,071
2015	1,369,071
2016	1,369,071
Thereafter	3,572,254

Deferred tax assets

Deferred tax assets recognized as of September 30, 2012 are primarily due to tax losses carried forward of $2.7 million and impairment loss recognized for proprietary technologies and land use rights of $0.6 million. Realization of tax losses carried forward and impairment loss for proprietary technologies and land use rights are dependent on judgments of the local tax authority for the assessment for their tax deductibility. No valuation allowance is recognized because management believes it is more likely than not that all of the deferred tax asset will be realized.

Advertising

Advertising expense consists primarily of costs of promoting the Company's corporate image and product marketing and costs of direct advertising. The Company expenses all advertising costs as incurred. For the nine months ended September 30, 2012 and 2011, the Company incurred advertising expense of approximately $11.3 million and $14.9 million, respectively.

(Loss) Earnings Per Share

Basic (loss) earnings per share is computed on the basis of the weighted average number of common stock outstanding during the period.

Table of Contents

Diluted (loss) earnings per share is computed on the basis of the weighted average number of common stock and common stock equivalents outstanding. Dilutive securities having an anti-dilutive effect on diluted earnings per share are excluded from the calculation.

Dilution is computed by applying the treasury stock method for options and warrants. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Dilution is computed by applying the if-converted method for convertible preferred stocks. Under this method, convertible preferred stock is assumed to be converted at the beginning of the period (or at the time of issuance, if later), and preferred dividends (if any) will be added back to determine income applicable to common stock. The shares issuable upon conversion will be added to weighted average number of common stock outstanding. Conversion will be assumed only if it reduces earnings per share (or increases loss per share).

Recent accounting pronouncements

Effective during the nine months ended September 30, 2012, the Company adopted the following Accounting Standards Updates ("ASU") issued by the FASB:

- ASU No. 2011-03, "Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements." ASU No. 2011-03 removes the transferor's ability criterion from the consideration of effective control for repurchase agreements and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity. It also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This guidance is effective for interim and annual periods beginning on or after December 15, 2011.

- ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards." ASU No. 2011-04 provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011.

- ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for impairment." The ASU No. 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The ASU No. 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

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ASU No. 2011-09, “Compensation – Retirement benefits – Multiemployer Plans (Subtopic 715-80): Disclosure about an Employer’s Participation in a Multiemployer Plan. The ASU No. 2011-09 require that employers provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. The ASU No. 2011-09 are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted.

- ASU No. 2011-12, "Comprehensive Income (Topic 220)" The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in the Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. The amendments in this Update are effective at the same time as the amendments in Update 2011-05 so that entities will not be required to comply with the presentation requirements in Update 2011-05 that this Update is deferring. For this reason, the transition guidance in paragraph 220-10-65-2 is consistent with that for Update 2011-05. The amendments in this Update are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has elected to present a single statement of comprehensive income as presented in these financial statements.

Except for stated above, the adoption of the foregoing ASUs did not have a material effect on the Company’s consolidated financial statements.

Table of Contents

In addition, the FASB has issued the following updates which are not yet effective for the nine months ended September 30, 2012 and which have not been early adopted in the Company's financial statements:

- In December 2011, the FASB issued ASU No. 2011-10, "Property, Plant and Equipment (Topic 360): Derecognition of in Substance Real Estate – a Scope Clarification (a consensus of the FASB Emerging Issues Task Force). The ASU No. 2011-10 requires that a parent deconsolidate a subsidiary if the parent ceases to have a controlling financial interest in the subsidiary (except for a sale of in substance real estate). However, in situations other than a sale of in substance real estate, differing views exist in practice on whether the parent of an in substance real estate subsidiary must satisfy the criteria in Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales, in order to derecognize the in substance real estate. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted. The Company has not elected to early adopt this ASU and is not expected to have a material impact on the Company's financial statements.

Note 3 – PREPAID EXPENSES AND OTHER RECEIVABLES

Prepaid expenses and other receivables consisted of the following:

	September 30, 2012 (Unaudited)	December 31, 2011
Deposit for research and development	$ 1,302,496	$ 1,298,743
Contingent assets	1,048,146	1,045,126
Other receivables	3,040,131	4,786,042
	$ 5,390,773	$ 7,129,911

Other receivable and contingent assets are mainly from the two land use rights disposed in year 2011.

Note 4 – DEPOSITS/ PREPAID RESEARCH AND DEVELOPMENT EXPENSES

The deposits/ prepaid research and development expenses consisted of the following:

	September 30, 2012 (unaudited)	December 31, 2011
Prepaid research and development expenses (Current)	$ 789,390	$ -
Deposits (Long-term)	-	3,148,466
	$ 789,390	$ 3,148,466

During the year 2011, the Company deposited Chinese Yuan Renminbi ("RMB") 20,000,000 (approximately $3.2 million) to a university as part of a four year research and development contract to develop a new drug for the treatment cardiovascular disease. The Company recorded it as a long-term deposit at December 31, 2011. During the first quarter of the year 2012, the Company evaluated the progress of the clinic tests (stage one and stage two) of the research and development project and expected the tests would be completed within a year. In addition, the Company agrees with the university that such deposits paid would be utilized as a reimbursement of research and development expenses incurred instead of purchase acquisition provided that the Company's total commitment and benefits in respect of the project would be remained unchanged. Accordingly, the Company reclassified the long-term deposits into current assets and started to amortize the research and development expense during the year 2012. As of

September 30, 2012, approximately $2.4 million was amortized as expense, and another $0.8 million was reclassified as prepaid research and development expenses in current assets.

Note 5 – SHORT-TERM BANK LOAN

On March 21, 2011, the Company was granted RMB3,000,000 (approximately $474,000) one year short-term bank loan from a local bank in the PRC, with annual interest rate at 7.88%, for working capital purpose. On May 25, 2011, the Company was granted another RMB2,000,000 (approximately $316,000) one year short-term bank loan with annual interest rate at 8.20% from the same local bank in the PRC. The loan is secured by (1) personal guarantee executed by a major shareholder of the Company and (ii) pledge of the Company's real property and land use right with carrying amount of approximately $2.7 million as of March 31, 2012. The Company paid off both the RMB 3,000,000 and RMB 2,000,000 loans during the second quarter of the year.

Table of Contents

Note 6 – STOCKHOLDERS' EQUITY

Reverse stock split

On April 3, 2012, the Company filed Articles of Amendment to the Company's Articles of Incorporation with the Secretary of State of the State of Maryland to effect a one-for-three reverse stock split of the issued and outstanding common stock of the Company (the "Reverse Split"). The Reverse Split became effective on April 3, 2012. The Reverse Split was duly approved by the Board of Directors of the Company without shareholder approval, in accordance with the authority conferred by Section 2-309(e)(2) of the Maryland General Corporation Law.

In accordance with SEC Staff Accounting Bulletin Topic 4C "Equity Accounts: Changes in Capital Structure", the changes in the capital structure arising from the Reserve Split must be given retroactive effect in the balance sheet, and an appropriately cross-referenced note should disclose the retroactive treatment, explain the change made and state the date the change became effective. Accordingly, the number and price of common stocks, including warrants and options and other related disclosures made throughout these financial statements retroactively reflected the effect of such Reverse Split.

Common stock

As of September 30, 2012 and December 31, 2011, the Company has 100,000,000 shares of common stock authorized, 9,993,549 and 9,400,216 shares of common stock issued and outstanding, respectively, at par value of $0.001 per share.

On September 17, 2012, the Company issued 33,333 shares of common stock to a former consultant based on previous agreement. Stock compensation expense of $1.17 per share or $39,000 was recognized in the third quarter of 2012 related to this stock issuance.

On September 17, 2012, the Company awarded 560,000 shares of common stock (the "Award Stocks") to its employees based on 2011 Incentive Stock Plan (see below). The Award Stocks were recorded as a stock-based compensation expense of approximately $655,200, using the grant date closing stock price at $1.17 per share, for the three and nine months ended September 30, 2012.

Both of the stock issued to a former consultant and the Award Stocks have been included in the calculation of "weighted average number of common stock outstanding" for the purpose of computation of basic income per share from the grant date.

Warrants

166,667 warrants were issued in connection with the November 2, 2009 private placement of Series B Convertible Preferred Stock are exercisable for a period of five years from their issuance date at an initial exercise price of $9 per share. The Company has the right at any time, on at least forty-five (45) day written notice, to redeem the outstanding warrants at a price of three cents ($0.03) per share provided the market price of the Company's common stock equals to or exceeds $13.5 on each trading day for twenty (20) consecutive trading days ending on the trading day prior to the date that the Company intends to redeem the warrants. The warrants are classified as equity and amounts attributable to the warrants are classified within additional paid-in capital.

On June 1, 2010, the Company issued 18,333 warrants to an investor relations firm. The warrants are exercisable by May 31, 2013 at $6 per share.

On June 1, 2011, the Company issued 10,784 warrants to an investor relations firm. The warrants are exercisable by June 30, 2014 at $8.22 per share.

No warrants were issued during the first nine months of 2012.

Table of Contents

The following table summarizes the Company's outstanding warrants as of September 30, 2012 and December 31, 2011.

Grant date	Issued	Exercise Price	Outstanding	Weighted Average Exercise Price
November 2, 2009	166,667	$ 9.00	166,667	
June 1, 2010	18,333	$ 6.00	18,333	
Total, as of December 31, 2010	185,000		185,000	$ 8.70
June 1, 2011	10,784	$ 8.22	10,784	
Total, as of December 31, 2011	195,784		195,784	$ 8.67
Total, as of September 30, 2012	195,784		195,784	$ 8.67

Stock Options

The Company's board of directors approved its 2009 stock plan ("2009 Stock Plan") under which it may grant incentive and nonqualified stock options, stock awards or restricted stocks to eligible participants. Options are generally granted for a term of 5 years. Except for the options granted to the Company's existing management on October 22, 2009, options granted under the 2009 Stock Plan generally vest annually in 3 equal installments, the first being on the first anniversary of the grant contingent upon employment with the Company on the vesting date. Options granted on October 22, 2009 vest annually in 3 equal installments, the first being on the grant date. Options granted on October 27, 2010 vested in one year from the issuance date of such options. Except for the cancelled options, the remaining options were fully vested during the year ended December 31, 2011.

In April 2011, the Company issued 30,000 stock options under the 2009 Stock Plan to its officer and director, among which 23,333 options vest in one year and expire in five years, and 6,667 vest annually in 3 equal installments and expire in three years.

In August 2011, the Company's board of directors approved the 2011 Stock Option Plan ("2011 Stock Plan") and it was subsequently approved by shareholders at the Company's annual shareholders' meeting in October 2011. According to the 2011 Stock Plan all of employees, officers, and directors, and consultants are eligible to be granted options or restricted stock awards (each, an "Award") under the plan. The plan is currently administered by the Board of Directors, which has all the power to administer the plan according to its terms, including the power to grant Awards, determine who may be granted Awards and the types and amounts of Awards to be granted, prescribe Award agreements, and establish programs for granting Awards. Awards may be made under the 2011 Stock Plan for up to 850,000 shares of the Company's stock.

In April 2012, the Company issued 24,000 stock options under the 2011 Stock Plan to one of its officers at the exercise price of $1.68 per share. The options vest in one year and expire in five years.

F-11

Table of Contents

The following table summarizes the Company's outstanding options as of September 30, 2012 and December 31, 2011.

Grant date	Number of option	Exercise Price	Expiration Date	Cancelled	Options outstanding as of December 31, 2011	Options Outstanding as of September 30, 2012	Vested as of December 31, 2011	Vested as of September 30, 2012
October 22, 2009	326,667	$ 7.80	October 21, 2014	(44,444)	282,222	282,222	282,222	282,222
December 30, 2009	33,333	$ 13.35	October 21, 2015	-	33,333	33,333	22,222	22,222
October 27, 2010	40,000	$ 8.40	October 26, 2015	(23,333)	16,667	16,667	16,667	16,667
April 7, 2011	23,333	$ 5.91	April 6, 2016	-	23,333	23,333	-	23,333
April 7, 2011	6,667	$ 7.80	April 6, 2014	-	6,667	6,667	-	2,222
April 20, 2012	24,000	$ 1.68	April 7, 2017	-	-	24,000	-	-
	454,000			(67,777)	362,222	386,222	321,111	346,666
Weighted Average Exercise Price					$ 8.22	$ 7.81		
Weighted Average Remaining Life (in years)					2.90	2.30		

Table of Contents

Note 7 – (LOSS) EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted (loss) earnings per share of common stock:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic net (loss) earnings per share:				
Net (loss) income used in computing basic net (loss) earnings per share	$(5,939,635)	$4,463,737	$(13,254,772)	$11,339,884
Weighted average number of common stock outstanding	9,490,506	9,398,876	9,430,532	9,264,104
Basic net (loss) earnings per share	$(0.63)	$0.47	$(1.41)	$1.22
Diluted net (loss) earnings per share:				
Net (loss) income used in computing diluted net earnings per share	$(5,939,635)	$4,463,737	$(13,254,772)	$11,339,884
Weighted average number of common stock outstanding	9,490,506	9,398,876	9,430,532	9,264,104
Weighted average effect of dilutive securities:				
Stock warrants and options	-	-	-	-
Shares used in computing diluted net (loss) earnings per share	9,490,506	9,398,876	9,430,532	9,264,104
Diluted net (loss) earnings per share	$(0.63)	$0.47	$(1.41)	$1.22

Note 8 - INCOME TAXES

The Company was incorporated in the United States of America (“USA”) and has operations in one tax jurisdiction, i.e. the PRC. The Company generated substantially all of its net income from its PRC operations for three and nine months ended September 30, 2012 and 2011, and has recorded income tax provision for the periods.

The Company’s subsidiaries and VIE were incorporated in the PRC and are governed by the Income Tax Law of the PRC and various local income tax laws. Effective January 1, 2008, China adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises).

Uncertain Tax Positions

Interest associated with unrecognized tax benefits are classified as income tax, and penalties are classified in general and administrative expenses in the statements of operations.

For the three and nine months ended September 30, 2012 and 2011, the Company had no unrecognized tax benefits and related interest and penalties expenses. Currently, the Company is not subject to examination by major tax jurisdictions.

Table of Contents

Note 9 - STATUTORY RESERVES

The Company's subsidiaries and VIE in the PRC are required to make appropriations to certain non-distributable reserve funds. In accordance with the laws and regulations applicable to China's foreign investment enterprises and with China's Company Laws, an enterprise's income, after the payment of PRC income taxes, must be allocated to the statutory surplus reserves. The proportion of allocation for reserves is 10 percent of the profit after tax to the surplus reserve fund, not to exceed 50 percent of registered capital.

Use of the statutory reserve fund is restricted to set offs against losses, expansion of production and operation or increase in the registered capital of a company. Use of the statutory public welfare fund is restricted to the capital expenditures for the collective welfare of employees. These reserves are not transferable to the Company in the form of cash dividends, loans or advances. These reserves are therefore not available for distribution except in liquidation. As of September 30, 2012 and December 31, 2011, the Company's VIE had allocated $6,490,600 and $6,490,600, respectively, to these non-distributable reserve funds.

Note 10 - COMMITMENT

Research and Development ("R&D") Agreements

As of September 30, 2012, the Company entered into three agreements with certain research institutes to conduct clinical trials for three new drugs and one existing drug. Pursuant to these agreements as of September 30, 2012 the Company paid approximately $1,302,000 as a deposit for clinical trial expenses and is obligated to pay the research institutes an additional approximately $886,000 upon completion of the clinical trials.

Capital commitments

As of September 30, 2012, the Company had capital expenditure commitments on purchase of proprietary technologies of approximately $5,841,000.

Note 11- SEGMENT INFORMATION

During the three and nine months ended September 30, 2012 and 2011, all revenues of the Company represented net sales of pharmaceutical products. No financial information by business segment is presented. Furthermore, as all revenues are derived from the PRC, no geographic information by geographical segment is presented. In addition, all tangible and intangible assets are located in the PRC.

Note 12 – RECLASSIFICATION

Certain amounts in the prior period have been reclassified to conform to the current period's presentation.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our financial statements and the notes thereto which appear elsewhere in this report. The results shown herein are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve uncertainties. In some cases, you can identify forward-looking statements by terminology such as "anticipate," "estimate," "plan," "project," "predict," "potential," "continue," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," or the negative of these terms or other comparable terminology. All forward-looking statements included in this document are based on information available to the management on the date hereof. Actual results and the timing of events could differ materially from the forward-looking statements as a result of a number of factors. Readers should also carefully review factors set forth in other reports or documents that we file from time to time with the Securities and Exchange Commission.

You should read the following discussion and analysis in conjunction with our unaudited financial statements contained in this report as well as the audited financial statements, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Risk Factors" contained in our Annual Report on Form 10-K, as amended to date, for the fiscal year ended December 31, 2011. We undertake no obligation and do not intend to update, revise or otherwise publicly release any revisions to our forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events.

Overview

Biostar Pharmaceuticals, Inc. ("we", the "Company" or "Biostar") was incorporated on March 27, 2007 in the State of Maryland. Our business operation is conducted in China primarily through our variable interest entity ("VIE"), Shaanxi Aoxing Pharmaceutical Co., Ltd. ("Aoxing Pharmaceutical"), which we control through contractual arrangements between Aoxing Pharmaceutical and our wholly owned subsidiary, Shaanxi Biostar Biotech Ltd. ("Shaanxi Biostar").

On March 28, 2010, we, through Shaanxi Biostar, entered into an agreement to acquire the assets of Xi'an Meipude Bio-Technology Co., Ltd., a Xi'an-based medical equipment manufacturer ("Meipude"), for Chinese Yuan Renminbi ("RMB") 7.85 million ($1.2 million), including certain assets registered to a family member of an original Meipude shareholder. We took control over the assets of Meipude on March 29, 2010. To facilitate the transfer of some of the assets, however, we were required to acquire all of the outstanding equity interests of Meipude, which we subsequently applied for deregistration on January 18, 2011.

In October 2011, Aoxing Pharmaceutical entered into a Share Transfer Agreement to acquire Shaanxi Weinan Huaren Pharmaceuticals, Ltd ("Shaanxi Weinan") from the holders of 100% of equity interests in Shaanxi Weinan. The aggregate purchase price is RMB61 million (approximately $9.55 million), in cash and payable in several tranches.

Shaanxi Weinan owns drug approvals and permits for a portfolio of 86 drugs and one health product, all of which, were added to the Company's current drug portfolio following the completion of this acquisition. The Company completed this acquisition on October 25, 2011, and the name of the acquired company changed to Shaanxi Weinan Aoxing Pharmaceuticals, LLC. (DBA: Shaanxi Weinan Huaren Pharmaceuticals, Ltd)

Our products also include six over-the-counter ("OTC") medicines, eight prescription-based pharmaceuticals, six health products, three hospital special supply drugs and one medical device which are sold and distributed in over 25 provinces and provincial-level cities throughout China. Our best-selling product, Xin Ao Xing Oleanolic Acid Capsule ("Xin Ao Xing Capsule"), is a state-approved OTC drug for treatment of Hepatitis B.

3

Table of Contents

Recent Developments

Gel Capsule Related Developments and Effects on the Company's Sales

In April 2012, PRC State Food and Drug Administration (SFDA) launched an investigation of several capsule manufacturers based in Zhejiang, Hebei and Jiangxi provinces into their use of industrial gelatin, which contained impermissibly high chromium content. On May 25, 2012, following a nationwide inspection, SFDA authorities reported that 669 batches of gel capsules from 254 drug manufacturers in 28 provinces were found to have high chromium levels. The results of this inspection were publicly distributed in China, including publication on SFDA's website http://www.sda.gov.cn/WS01/CL0001. As a result, SFDA effectively suspended sales of gel capsules nationwide until the investigation was completed.

In May 2012, following an onsite inspection by the Xianyang State Food and Drug Administration (SFDA), samples from a batch of our Xin Aoxing capsules were found to contain chromium content higher than edible gelatin. Specifically, samples from a batch of 150 cases of the Xin Aoxing capsules (each of the 150 cases contains 8,000 capsules), representing Biostar sales of approximately RMB1,188,000 or approximately $188,000 were also found to contain high levels of chromium, which capsules, in the Company's estimation, were sold in the market in mid-2011. The Company did not check the batch in question for the chromium levels at that time since PRC pharmaceutical companies were not required to test their gel capsule inventories and purchases for chromium levels in 2011.

As required by SFDA in April 2012, the Company purchased gel capsule inspection equipment to measure the chromium levels in gel capsules it used. The Company also undertook a thorough inspection of all samples of drugs sold and its current product inventory to ensure that all of the gel capsules it had purchased and currently uses comply with the SFDA chromium content requirements. In addition, the Company conducted checks of every batch of raw materials it uses in every production category and, except as discussed above, found no violations of the chromium content requirements. Further, the Company recalled all such affected capsules as promptly and thoroughly as possible, and imposed heightened quality control and assurance measures going forward.

On July 30, 2012, the SFDA approved the Company's resumption of sales of its gel capsules following a thorough inspection of raw materials used in every production category, all samples of drugs sold and the current product inventory. However, the suspension of sales of gel capsule products severely affected all China-based pharmaceutical companies that use gelatin capsules to manufacture their drugs. The Company was not immune to the industry-wide losses and, as discussed below, the Company's sales and overall results for the 2012 second and third quarter were similarly adversely affected. The Company has been taking a number of steps to restart sales of gel capsule drugs immediately following the SFDA approval, including, among others, engaging its employees to work overtime, adding a second shift, launching an aggressive advertising campaign to help improve consumer confidence, establishing incentives for the sales force in all of the distribution offices nationwide, and launching an innovating B2C call center to take order and provide hands-on sales support.

Results of Operations

Net Sales

Following the decrease discussed above, our sales started to increase after the SFDA approved of the resumption of capsule products sales during the third quarter this year. Our net sale increased 22.2% for the three months ended September 30, 2012 from the previous quarter. Compared to the same periods in 2011, our total sales declined approximately $14.8 million or 60%, and $31.9 million or 48% for the three and nine months ended September 30, 2012, respectively. Sales from our flagship product Xin Aoxing Oleanolic Acid Capsule dropped approximately 82% and 63% for the three and nine months ended September 30, 2012, respectively, compared to the same period of last

year. Starting from the third quarter this year we added three new products manufactured to specifically supply Xijing Military Hospital. We started test production for these three products in July this year, and after all the products passed the test we signed the supply agreement in September 2012. These three new products brought in $1.3 million or 13.0% of total revenue for the current quarter. Our Shaanxi Weinan facility contributed approximately 20% and 16% sales for the three and nine months ended September 30, 2012, respectively. Shaanxi Weinan facility was acquired during the fourth quarter of 2011.

Table of Contents

		Three Months Ended September 30,					
		2012			2011		
Drugs							
	Xin Aoxing Oleanolic Acid Capsule	$ 3,026,779	30.4	%	$ 16,265,914	65.7	%
	Gan Wang Compound Paracetamol Capsule	412,988	4.1	%	1,780,322	7.2	%
	Tianqi Dysmenorrhea Capsule	454,127	4.6	%	1,859,092	7.5	%
	Danshen Granule	1,269,800	12.7	%	1,241,407	5.0	%
	Taohuasan Pediatrics Medicine	1,093,058	11.0	%	1,201,331	4.8	%
	Subtotal	6,256,752	62.8	%	22,348,066	90.2	%
Health products							
	Tangning Capsule	112,726	1.1	%	607,489	2.5	%
	Yizi Capsule	239,030	2.4	%	1,388,538	5.6	%
	Shengjing Capsule	53,532	0.5	%	299,266	1.2	%
	Aoxing Ointment	45,686	0.5	%	123,373	0.5	%
	Subtotal	450,974	4.5	%	2,418,666	9.8	%
Hospital products							
	Pharyngitis Granule	649,370	6.5	%	-	-	
	Gastritis Granule	199,374	2.0	%	-	-	
	Nasosinusitis Granule	446,511	4.5	%	-	-	
	Subtotal	1,295,255	13.0	%	-	-	
Medical device	- Hernia belt	4,599	0.0	%	12,688	0.0	%
Shaanxi Weinan	Products	1,961,795	19.7	%	-	-	
	Total sales	$ 9,969,375	100	%	$ 24,779,420	100	%

		Nine Months Ended September 30,			
		2012		2011	
Drugs					
	Xin Aoxing Oleanolic Acid Capsule	$ 16,310,838	47.9%	$ 44,534,244	67.5%
	Gan Wang Compound Paracetamol Capsule	1,498,110	4.4%	4,447,430	6.7%
	Tianqi Dysmenorrhea Capsule	1,614,920	4.8%	4,824,068	7.3%
	Danshen Granule	2,981,084	8.8%	2,998,280	4.5%
	Taohuasan Pediatrics Medicine	3,546,371	10.4%	3,660,142	5.6%
	Subtotal	25,951,323	76.3%	60,464,164	91.6%
Health products					
	Tangning Capsule	397,775	1.2%	1,535,521	2.3%

Yizi Capsule	674,656	2.0%	2,994,746	4.6%
Shengjing Capsule	264,319	0.8%	707,956	1.1%
Aoxing Ointment	121,084	0.3%	265,405	0.4%
Subtotal	1,457,834	4.3%	5,503,628	8.4%
Hospital products				
Pharyngitis Granule	649,370	1.9%	-	-
Gastritis Granule	199,374	0.6%	-	-
Nasosinusitis Granule	446,511	1.3%	-	-
Subtotal	1,295,255	3.8%	-	-
Medical device - Hernia belt	18,259	0.1%	12,689	0.0%
Shaanxi Weinan Products	5,305,493	15.5%	-	-
Total revenue	$ 34,028,164	100%	$ 65,980,481	100%

Table of Contents

Cost of sales

Total cost of sales decreased by about $2.7 million or 37%, and $6.0 million or 31% for the three and nine months ended September 30, 2012, respectively, compared to the same period last year. The decline in sales of capsule products was the main reason for the cost decrease. When compared to the second quarter this year, total cost increased by 32% for the three months ended September 30, 2012. Cost from Weinan facility counted for approximately 18% of the total cost for both the three and nine months ended September 30, 2012. Cost of the three new drugs started manufacturing this quarter for Xijing Military Hospital was approximately 20% of the total cost for the three months ended September 30, 2012.

		Three Months Ended September 30,					
		2012			2011		
Drugs							
	Xin Aoxing Oleanolic Acid Capsule	$ 549,205	11.6	%	$ 2,854,158	38.2	%
	Gan Wang Compound Paracetamol Capsule	227,887	4.8	%	943,908	12.6	%
	Tianqi Dysmenorrhea Capsule	285,974	6.0	%	1,035,874	13.9	%
	Danshen Granule	1,149,069	24.3	%	1,052,944	14.1	%
	Taohuasan Pediatrics Medicine	527,002	11.1	%	525,581	7.1	%
	Subtotal	2,739,137	57.8	%	6,412,465	85.9	%
Health products							
	Tangning Capsule	36,165	0.8	%	194,759	2.6	%
	Yizi Capsule	91,548	1.9	%	531,796	7.2	%
	Shengjing Capsule	41,775	0.9	%	233,380	3.1	%
	Aoxing Ointment	31,640	0.7	%	83,311	1.1	%
	Subtotal	201,128	4.3	%	1,043,246	14.0	%
Hospital products							
	Pharyngitis Granule	493,547	10.4	%	-	-	
	Gastritis Granule	123,306	2.6	%	-	-	
	Nasosinusitis Granule	325,198	6.9	%	-	-	
	Subtotal	942,051	19.9	%	-	-	
Medical device	- Hernia belt	3,106	0.1	%	10,255	0.1	%
Shaanxi Weinan Products		844,472	17.9	%	-	-	
	Total cost	$ 4,729,894	100	%	$ 7,465,966	100	%

Table of Contents

		Nine Months Ended September 30, 2012			2011		
Drugs							
	Xin Aoxing Oleanolic Acid Capsule	$ 3,236,039	24.2	%	$ 7,106,736	36.7	%
	Gan Wang Compound Paracetamol Capsule	813,473	6.1	%	2,353,309	12.2	%
	Tianqi Dysmenorrhea Capsule	950,124	7.1	%	2,675,904	13.8	%
	Danshen Granule	2,699,893	20.2	%	2,547,681	13.2	%
	Taohuasan Pediatrics Medicine	1,667,768	12.5	%	2,290,466	11.8	%
	Subtotal	9,367,297	70.1	%	16,974,096	87.7	%
Health products							
	Tangning Capsule	127,573	1.0	%	491,143	2.5	%
	Yizi Capsule	258,374	1.9	%	1,146,549	5.9	%
	Shengjing Capsule	206,256	1.5	%	550,999	2.9	%
	Aoxing Ointment	83,505	0.6	%	179,222	0.9	%
	Subtotal	675,708	5.0	%	2,367,913	12.2	%
Hospital products							
	Pharyngitis Granule	493,547	3.7	%	-	-	
	Gastritis Granule	123,306	0.9	%	-	-	
	Nasosinusitis Granule	325,198	2.4	%	-	-	
	Subtotal	942,051	7.0	%	-	-	
Medical device	- Hernia belt	12,638	0.1	%	10,255	0.1	%
Shaanxi Weinan Products		2,381,593	17.8	%	-	-	
	Total cost	$ 13,379,287	100	%	$ 19,352,264	100	%

Gross Profit

Total gross profit declined by approximately $12.1 million or 70%, and $26.0 million or 56% for the three and nine months ended September 30, 2012 respectively, compared to the same periods in 2011. Gross profits of Xin Aoxing Oleanolic Acid Capsule decreased by approximately 82%, and 65% for the three and nine months ended September 30, 2012, respectively. Shaanxi Weinan products contributed approximately $1.1 million or 21%, and $2.9 million or 14% of the total gross profit for the three and nine months ended September 30, 2012.Total gross margin was 53% and 61% for the three and nine months ended September 30, 2012 compared to 70% and 71% at the same periods last year. Gross margins for Shaanxi Weinan products were 55% and 57% for the three and nine months ended September 30, 2012. Gross margins of the three new drugs started manufacturing this quarter for Xijing Military Hospital was approximately 27%.

7

Table of Contents

		Three Months Ended September 30,					
		2012			2011		
Drugs							
	Xin Aoxing Oleanolic Acid Capsule	$ 2,477,574	47.3	%	$ 13,411,756	77.5	%
	Gan Wang Compound Paracetamol Capsule	185,101	3.5	%	836,414	4.8	%
	Tianqi Dysmenorrhea Capsule	168,153	3.2	%	823,218	4.8	%
	Danshen Granule	120,731	2.3	%	188,463	1.0	%
	Taohuasan Pediatrics Medicine	566,056	10.8	%	675,750	3.9	%
	Subtotal	3,517,615	67.1	%	15,935,601	92.0	%
Health products							
	Tangning Capsule	76,561	1.5	%	412,730	2.4	%
	Yizi Capsule	147,482	2.8	%	856,742	5.0	%
	Shengjing Capsule	11,757	0.2	%	65,886	0.4	%
	Aoxing Ointment	14,046	0.3	%	40,062	0.2	%
	Subtotal	249,846	4.8	%	1,375,420	8.0	%
Hospital products							
	Pharyngitis Granule	155,823	3.0	%	-	-	
	Gastritis Granule	76,068	1.5	%	-	-	
	Nasosinusitis Granule	121,313	2.3	%	-	-	
	Subtotal	353,204	6.8	%	-	-	
Medical device - Hernia belt		1,493	0.0	%	2,433	0.0	%
Shaanxi Weinan Products		1,117,323	21.3	%	-	-	
	Total gross profit	$ 5,239,481	100	%	$ 17,313,454	100	%

		Nine Months Ended September 30,			
		2012		2011	
Drugs					
	Xin Aoxing Oleanolic Acid Capsule	$ 13,074,799	63.3%	$ 37,427,508	80.3%
	Gan Wang Compound Paracetamol Capsule	684,637	3.3%	2,094,121	4.5%
	Tianqi Dysmenorrhea Capsule	664,796	3.2%	2,148,164	4.6%
	Danshen Granule	281,191	1.4%	450,599	1.0%
	Taohuasan Pediatrics Medicine	1,878,603	9.1%	1,369,676	2.9%

Subtotal	16,584,026	80.3%	43,490,068	93.3%
Health products				
Tangning Capsule	270,202	1.3%	1,044,378	2.2%
Yizi Capsule	416,282	2.0%	1,848,197	4.0%
Shengjing Capsule	58,063	0.3%	156,957	0.3%
Aoxing Ointment	37,579	0.2%	86,183	0.2%
Subtotal	782,126	3.8%	3,135,715	6.7%
Hospital products				
Pharyngitis Granule	155,823	0.7%	-	-
Gastritis Granule	76,068	0.4%	-	-
Nasosinusitis Granule	121,313	0.6%	-	-
Subtotal	353,204	1.7%	-	-
Medical device - Hernia belt	5,621	0.0%	2,434	0.0%
Shaanxi Weinan Products	2,923,900	14.2%	-	-
Total gross profit	$ 20,648,877	100%	$ 46,628,217	100%

8

Table of Contents

Selling, General and Administrative, and Research and Development Expenses

	Three Months Ended September 30,				
	2012		2011		
	Amount	% of Net Sales	Amount	% of Net Sales	% of Change
Selling expenses	$ 6,009,227	60%	$ 10,391,335	42%	-42%
General and administrative expenses	2,640,240	26%	983,778	4%	168%
Research and development expenses	789,702	8%	-	-	100%
Administrative penalty	1,596,174	16%	-	-	100%

	Nine Months Ended September 30,				
	2012		2011		
	Amount	% of Net Sales	Amount	% of Net Sales	% of Change
Selling expenses	$ 18,498,671	54%	$ 26,908,239	41%	-31%
General and administrative expenses	5,124,789	15%	4,103,154	6%	25%
Research and development expenses	2,370,605	7%	-	-	100%
Administrative penalty	1,596,174	5%	-	-	100%
Credits for negative publicity	7,904,513	23%	-	-	100%

Selling expenses decreased by approximately $4.4 million or 42%, and $8.4 million or 31% for the three and nine months ended September 30, 2012, respectively, compared to the same periods last year, due to the lower net sales. Advertising expenses were approximately $4.1 million and $11.3 million for the three and nine months ended September 30, 2012 respectively, compared to approximately $5.7 million and $14.9 million for the three and nine months ended September 30, 2011, respectively.

General and administrative expenses increased by approximately $1.7 million or 168%, and $1 million or 25% for the three and nine months ended September 30, 2012, respectively, compared to the same periods last year. The significant increase of G&A expenses during the third quarter this year was mainly due to the issuance of incentive stock during this period resulting in approximately $0.7 million expenses and made an allowance for doubtful accounts of $0.9 million.

In the third quarter this year the Company paid a one-time, non-appealable administrative penalty of approximately $1.6 million to the local government related to the capsule incident discussed above.

Research and development expenses accounted for 8% and 7% of total net sales for the three and nine months ended September 30, 2012, respectively. The Company did not incur research and development expenses for the same periods last year. During the year 2011, the Company deposited Chinese Yuan Renminbi (“RMB”) 20,000,000 (approximately $3.2 million) to a university as part of a four year research and development contract to develop a new drug for the treatment cardiovascular disease. The Company recorded it as a long-term deposit at December 31, 2011. During the first quarter of the year 2012, the Company evaluated the progress of the clinic tests (stage one and stage two) of the research and development project and expected the tests would be completed within a year. In addition, the Company agrees with the university that such deposits paid would be utilized as a reimbursement of research and development expenses incurred instead of purchase acquisition provided that the Company’s total commitment and

benefits in respect of the project would be remained unchanged. Accordingly, the Company reclassified the long-term deposits into current assets and started to amortize the research and development expense during the year 2012. As of September 30, 2012, $2,370,605 was amortized as expense, and $789,390 was reclassified as prepaid research and development expenses in current assets.

Stock-based compensation

The Company's Board adopted and the Company's stockholders approved Stock Option Incentive Plans in August 2009 and August 2011, respectively. The values of options granted under the Plan are expensed over the term of their respective vesting periods. Stock awards are valued using the market price on or around the date the shares were awarded and included as a period compensation expense. During the third quarter 2012, the Company awarded 560,000 shares of common stock to its employees based on 2011 Incentive Stock Plan. The awarded stocks were recorded as a stock-based compensation expense of approximately $655,200, using the grant date closing stock price. Also, during the third quarter the Company issued 33,333 shares of common stock to a former consultant based on previous agreement. Consequently, we incurred $722,276 and $793,633 in stock-based compensation for the three months and nine months ended September 30, 2012, respectively.

Table of Contents

Interest Expense

We incurred interest expense of $1,059 and $33,193 for the three and nine months ended September 30, 2012 respectively, compared to interest expense of $2,984 and $10,371 for the three and nine months ended September 30, 2011.

Income Tax Expense (Benefits)

The Company recorded loss for the second and third quarters this year, however, due to the Company recorded an administrative penalty of $1.6 million which is non-deductible for tax purpose, the Company recorded approximately $0.2 million tax expense for the three months ended September 30, 2012 but recorded $1.4 million income tax benefits for the nine months ended September 30, 2012.

The uniform corporate income tax rate is 25% in China. Provisions for income tax expenses were approximately $1.6 million and $4.5 million for the three and nine months ended September 30, 2011, respectively.

Liquidity and Capital Resources

As of September 30, 2012, we had cash and cash equivalents of approximately $12.1 million. We believe our existing cash and cash equivalents will be sufficient to maintain our operations at present level for at least the next twelve months.

On an on-going basis, we take steps to identify and plan our needs for liquidity and capital resources, to fund our operations and day to day business operations. Our future capital expenditures will include, among others, expanding product lines, research and development capabilities, and making acquisitions as deemed appropriate.

Based on our current plans for the next 12 months, we anticipate that the sales of the Company’s pharmaceutical products will be the primary organic source of funds for future operating activities in 2012 and 2013. However, to fund continued expansion of our operation and extend our reach to broader markets, and to acquire additional entities, as we may deem appropriate, we may rely on bank borrowing, if available, as well as capital raises. There is no assurance that we will find such funding on acceptable terms, if at all.

Net cash used in operating activities for the nine months ended September 30, 2012 was approximately $5.0 million. This was primarily due to our net loss of approximately $13.3 million, adjusted by non-cash related expenses including deferred tax assets, research and development expenses, depreciation and amortization, credits to accounts receivable due to negative publicity, allowance for doubtful accounts and stock-based compensation of approximately $11.7 million, and reduced by a net decrease in working capital items of approximately $3.5 million.

Net cash provided by investing activities for the nine months ended September 30, 2012 was approximately $0.9 million, due to approximately $0.8 million balance payment for acquisition of Shaanxi Weinan in 2011 and approximately $1.8 million compensation received for disposed land use rights in 2011.

Net cash used in financing activities for the nine months ended September 30, 2011 was approximately $0.8 million, due to the payoff of two short-term bank loans from a local bank in the PRC. (See Notes to the Condensed Consolidated Financial Statements, Note 5 – Short-term Bank Loan for the detail.)

Table of Contents

Critical Accounting Policies

We believe the following critical accounting policies, among others, affect management's more significant judgments and estimates used in the preparation of the financial statements:

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on specific identification of customer accounts and management's best estimate of the likelihood of potential loss, taking into account such factors as the financial condition and payment history of major customers. Management evaluates the collectability of the receivables at least quarterly. If the financial condition of a customer was to deteriorate further, resulting in an impairment of their ability to make payments, additional allowances may be required. Such differences could be material and could significantly impact cash flows from operating activities.

Accounts receivable have been reduced by $7,904,513, representing credits issued to customers in August 2012. These credits were given to maintain the customers relationship following the negative publicity in the PRC related to medicines delivered in capsule form. Although the credits were not issued until August 2012, the PRC disclosures related to tainted capsules and the negative impact to our customers occurred in the second quarter of 2012, therefore this loss was recognized during the three months ended June 30, 2012.

The following table sets out the aging of our accounts receivable before allowance for doubtful accounts for each balance sheet periods presented. Value-added tax (VAT) is included in the accounts receivable (VAT is at 17% of sales).

Accounts Receivable Aging	Total	1-30 days	31-60 days	61-90 days	91-120 days	121-365 days	> 365 days
As of September 30, 2012	$ 29,745,962	$ 4,884,748	$ 4,131,889	$ 1,224,383	$ 496,996	$ 18,961,792	$ 46,154
As of December 31, 2011	$ 35,177,578	$ 8,609,801	$ 9,019,083	$ 11,928,141	$ 5,345,070	$ 229,462	$ 46,021

The following table presents the days sales outstanding calculated based on sales and accounts receivables for the nine months ended September 30, 2012 and 2011.

	Nine Months Ended September 30,	
	2012	2011
Days sales outstanding	205	171

The number of days that sales were outstanding was 205 days for the nine months ended September 30, 2012, compared to 171 days for the same period last year.

Inventory

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, future pricing and

market conditions. If actual future demands, future pricing or market conditions are less favorable than those projected by management, additional inventory write-downs may be required and the differences could be material. Such differences might significantly impact cash flows from operating activities.

Table of Contents

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Judgment is required to determine the estimated useful lives of assets, especially for computer equipment, including determining how long existing equipment can function and when new technologies will be introduced at cost-effective price points to replace existing equipment. Changes in these estimates and assumptions could materially impact the financial position and results of operations.

Stock-Based Compensation

Our stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including expected volatility and option life. Changes in these assumptions could materially impact the financial position and results of operations.

Valuation of Intangibles

From time to time, we acquire intangible assets that are beneficial to our product development processes. Management periodically evaluates the carrying value of intangibles, including the related amortization periods. In evaluating acquired intangible assets, management determines whether there has been impairment by comparing the anticipated undiscounted cash flows from the operation and eventual disposition of the product line with its carrying value. If the undiscounted cash flows are less than the carrying value, the amount of the impairment, if any, will be determined by comparing the carrying value of each intangible asset with its fair value. Fair value is generally based on either a discounted cash flows analysis or market analysis. Future operating income is based on various assumptions, including regulatory approvals, patents being granted, and the type and nature of competing products. If regulatory approvals or patents are not obtained or are substantially delayed, or other competing technologies are developed and obtain general market acceptance or market conditions otherwise change, our intangibles may have a substantially reduced value, which could be material.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for operating losses and tax credit carry-forwards. Management must make assumptions, judgments and estimates to determine the current provision for income taxes and the deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Management's judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, management's interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or management's interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in the financial statements. Management's assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations. Actual operating results and the underlying amount and category of income in future years could render management's current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from the estimates, thus materially impact the financial position and results of operations.

Foreign Currency

Our functional currency is the U.S. dollar, and our subsidiary and our VIE in China use their respective local currencies as their functional currencies, i.e. the RMB. An entity's functional currency is the currency of the primary economic environment in which the entity operates. Management must use judgment in determining an entity's functional currency, assessing economic factors including cash flow, sales price, sales market, expense, financing and inter-company transactions and arrangements. The impact from exchange rate changes related to transactions denominated in currencies other than the functional currency is recorded as a gain and loss in the statements of operations, while the impact from exchange rate changes related to translating a foreign entity's financial statements from the functional currency to its reporting currency, the U.S. dollar, is disclosed and accumulated in a separate component under the equity section of the balance sheets. Different judgments or assumptions resulting in a change of functional currency may materially impact our financial position and results of operations.

Table of Contents

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2012:

	Payments due by period				
	Total	Within 1 year	1-3 years	3-5 years	>5 years
Research and development expense	$ 886,000	$ 886,000	-	-	-
Purchase of intellectual property	5,841,000	3,157,000	2,684,000	-	-
Total contractual obligations	$ 6,727,000	$ 4,043,000	$ 2,684,000	-	-

Inflation

Management believes that inflation has not had a material effect on our results of operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, as defined in Regulation S-K Section 303(a)(4).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a “smaller reporting company” as defined by Regulations S-K and as such, are not required to provide this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q (the “Evaluation Date”), under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer (the “Certifying Officers”), have evaluated the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Certifying Officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective such that the material information required to be filed with our SEC reports is recorded, processed, summarized, and reported within the required time periods specified in the SEC rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

At present, the Company is not engaged in or the subject of any material pending legal proceedings.

Item 1A. Risk Factors.

Risks Relating to Our Business

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

Aoxing Pharmaceutical commenced its current line of business operations in 1997 and received its Good Manufacturing Practices ("GMP") certification in January 2006, which must be renewed every five years for Aoxing Pharmaceutical to stay in business. We filed the application to renew the GMP certificate and SFDA approved our application and renewed its official GMP license in March 2011. Aoxing Pharmaceutical's operating history may not provide a meaningful basis on which to evaluate its business. We cannot assure you that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

- raise adequate capital for expansion and operations;
- implement our business model and strategy and adapt and modify them as needed;
- increase awareness of our brand name, protect our reputation and develop customer loyalty;
- manage our expanding operations and service offerings, including the integration of any future acquisitions;
- maintain adequate control of our expenses; or
- anticipate and adapt to changing conditions in the medical over the counter, pharmaceutical and nutritional supplement markets in which we operate as well as the impact of any changes in government regulations, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

The loss of Aoxing Pharmaceutical as our operating business would have a material adverse effect on our business and the price of our common stock.

We have no equity ownership interest in Aoxing Pharmaceutical. Our ability to control Aoxing Pharmaceutical and consolidate its financial results is through a series of contractual arrangements between it and our wholly owned subsidiary Shaanxi Biostar. Management of Aoxing Pharmaceutical is an affiliate of us and of Shaanxi Biostar and the stockholders of Aoxing Pharmaceutical are also our stockholders. Thus the contractual arrangements were not entered into as a result of arms' length negotiations because the parties to such agreements are under common control. Mr. Wang, our chief executive officer and chairman, holds approximately 45.3% of the shares of Aoxing Pharmaceutical and 32.5% of our common stock. While we have been advised by our PRC counsel that the contractual arrangements are legal and enforceable under PRC law, these affiliates control the parties to the contractual arrangements, and it could be possible for them to cause Aoxing Pharmaceutical and its shareholders to breach the contractual arrangements, in which event our unaffiliated investors would have little or no recourse because of the inherent difficulties in enforcing their rights since all our assets are located in the PRC. (See, Risk Factor "The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC

laws and regulations may harm its business.") In the event that management of Aoxing Pharmaceutical decides to cause a breach the contractual arrangements, the risk of loss for the affiliated shareholders of Aoxing Pharmaceutical could be lower than that for the unaffiliated investors, and the interests of the management and shareholders of Aoxing Pharmaceutical would be in conflict with the interest of our other stockholders.

Table of Contents

Our failure to compete effectively may adversely affect our ability to generate revenue.

We compete with other companies, many of whom are developing or can be expected to develop products similar to ours. Many of our competitors are also more established than we are, and have significantly greater financial, technical, marketing and other resources than we presently possess. Some of our competitors have greater name recognition and a larger customer base. These competitors may be able to respond more quickly to new or changing opportunities and customer requirements and may be able to undertake more extensive promotional activities, offer more attractive terms to customers, and adopt more aggressive pricing policies. We cannot assure you that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not harm our business.

There is no assurance that the Company will successfully integrate the Shaanxi Weinan Huaren business, nor that it will realize the anticipated synergies of the combined businesses

On October 11, 2011, the Company and seven holders of 100% equity interests in Shaanxi Weinan Huaren Pharmaceuticals., Ltd., a limited liability company organized under the laws of the PRC ("Shaanxi Weinan") (the "Equity Holders"), entered into a Share Transfer Contract (the "Agreement") pursuant to which the Company agreed to acquire all interest of the Equity Holders in Shaanxi Weinan. Following the consummation of this transaction, the Company owns drug approvals and permits for Shaanxi Weinan's portfolio of 86 drugs and 1 health product. The Shaanxi Weinan business represents a sizable addition to the Company's existing product line. There is no assurance that the Company will successfully integrate any or all of the various aspects to the acquired business, including but not limited to the sales, marketing, manufacturing, distribution, regulatory, and other functions. Failure to smoothly and successfully integrate the acquired business could lead to a reduction in revenue for the Shaanxi Weinan products compared to historical levels, maintain its customer base, and therefore have a material adverse effect on the Company, its operations or the price of its securities. Furthermore, there is no assurance that the Company will realize synergies in the sales, marketing, distribution, or other areas as it currently contemplates it will. Nor is there any assurance that the Company will realize any anticipated economies of scale for the combined businesses.

We may not be able to effectively control and manage our growth.

If our business and markets grow and develop, it will be necessary for us to finance and manage expansion in an orderly fashion. An expansion would increase demands on existing management, workforce and facilities. Failure to satisfy such increased demands could interrupt or adversely affect our operations, cause delay in production and delivery of our products, and increase administrative inefficiencies.

We may require additional financing in the future and a failure to obtain such required financing will inhibit our ability to grow.

The continued growth of our business may require additional funding from time to time, which we expect to raise in private placements of our equity or debt securities with accredited investors or by offering our securities for sale pursuant to an effective registration statement on a market where our common stock is traded. The proceeds of these funding will be forwarded to Aoxing Pharmaceutical and accounted for as a loan to Aoxing Pharmaceutical and eliminated during consolidation. The proceeds would be used for general corporate purposes of Aoxing Pharmaceutical, which could include acquisitions, investments, repayment of debt and capital expenditures among other things. We may also use the proceeds to repurchase our capital stock or for our corporate overhead expenses. If we borrow funds we expect to be the primary obligor on any debt. Obtaining additional funding would be subject to a number of factors including market conditions, operating performance and investor sentiment, many of which are outside of our control. These factors could make the timing, amount, terms and conditions of additional funding unattractive or unavailable to us. Our management believes that we currently have sufficient funds from working

capital to meet our current operating costs over the next 12 months.

The terms of any future financing may adversely affect your interest as stockholders.

If we require additional financing in the future, we may be required to incur indebtedness or issue equity securities, the terms of which may adversely affect your interests in us. For example, the issuance of additional indebtedness may be senior in right of payment to your shares upon our liquidation. In addition, indebtedness may be under terms that make the operation of Aoxing Pharmaceutical's business more difficult because the lender's consent could be required before we take certain actions. Similarly the terms of any equity securities we issue may be senior in right of payment of dividends to your common stock and may contain superior rights and other rights as compared to your common stock. Further, any such issuance of equity securities may dilute your interest in us.

Table of Contents

We may engage in future acquisitions that could dilute the ownership interests of our stockholders, cause us to incur debt and assume contingent liabilities.

We may review acquisition and strategic investment prospects that we believe would complement our current product offerings, augment our market coverage or enhance our technical capabilities, or otherwise offer growth opportunities. From time to time we review investment opportunities in new businesses and we expect to make investments in, and to acquire, businesses, products, or technologies in the future. We expect that when we raise funds from investors for any of these purposes we will be either the issuer or the primary obligor while the proceeds will be forwarded to Aoxing Pharmaceutical and accounted for as a loan to Aoxing Pharmaceutical and eliminated during consolidation. In the event of any future acquisitions, we could:

- issue equity securities which would dilute current stockholders' percentage ownership;
- incur substantial debt;
- assume contingent liabilities; or
- expend significant cash.

These actions could have a material adverse effect on our operating results or the price of our common stock. Moreover, even if we do obtain benefits in the form of increased sales and earnings, there may be a lag between the time when the expenses associated with an acquisition are incurred and the time when we recognize such benefits. Acquisitions and investment activities also entail numerous risks, including:

- difficulties in the assimilation of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition or investment transaction;
- the diversion of management's attention from other business concerns;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which Aoxing Pharmaceutical has no or limited prior experience;
- the potential loss of key employees of acquired organizations; and
- substantial charges for the amortization of certain purchased intangible assets, deferred stock compensation or similar items.

We cannot ensure that we will be able to successfully integrate any businesses, products, technology, or personnel that we might acquire in the future, and our failure to do so could have a material adverse effect on our business, operating results and financial condition.

We may not have adequate internal accounting controls. While we have certain internal procedures in our budgeting, forecasting and in the management and allocation of funds, our internal controls may not be adequate.

We are constantly striving to improve our internal accounting controls. We expect to continue to improve our internal accounting control for budgeting, forecasting, managing and allocating our funds and to better account for them as we grow. There is no guarantee that such improvements will be adequate or successful or that such improvements will be carried out on a timely basis. If we do not have adequate internal accounting controls, we may not be able to appropriately budget, forecast and manage our funds, we may also be unable to prepare accurate accounts on a timely basis to meet our continuing financial reporting obligations and we may not be able to satisfy our obligations under US securities laws.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require every public company to include a management report on such company's internal controls over financial reporting in its annual report, which

contains management’s assessment of the effectiveness of our internal controls over financial reporting. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. Some members of our management team have limited or no experience operating a public company, or subject to SEC rules and requirements, including SEC reporting practices and requirements that are applicable to a public company. While we are in the process of engaging a consulting firm to evaluate and assist us with implementing a viable internal control system, our lack of familiarity with Section 404 may nevertheless unduly divert management's time and resources in executing the business plan. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. So far, our external auditors have not reported to our board of directors any significant weakness on our internal control and provided recommendations accordingly. Nevertheless, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our stock. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

Table of Contents

We are dependent on certain key personnel and loss of these key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success is, to a certain extent, attributable to the management, sales and marketing, and pharmaceutical factory operational expertise of key personnel. We are dependent upon the services of Mr. Wang, our president, chief executive officer and chairman, for the continued growth and operation of our Company because of his experience in the industry and his personal and business contacts in the PRC. We do not have an employment agreement with Mr. Wang and do not anticipate entering into an employment agreement in the foreseeable future. Although we have no reason to believe that Mr. Wang will discontinue his services with us or Aoxing Pharmaceutical, the interruption or loss of his services would adversely affect our ability to effectively run our business and pursue our business strategy as well as our results of operations.

Additionally, Zack Pan, our Chief Financial Officer, Qinghua Liu, our Director and Chief Controller, Zhenghong Wang, our Chief Operating Officer, Shuang Gong, our Corporate Secretary, Yuan Jian, General Manager and Chief Engineer of Aoxing Pharmaceutical, perform key functions in the operation of our business. There can be no assurance that we will be able to retain these officers after the term of their employment contracts expire. The loss of these officers could have a material adverse effect upon our business, financial condition, and results of operations. We do not carry key man life insurance for any of our key personnel nor do we foresee purchasing such insurance to protect against a loss of key personnel.

We may not be able to hire and retain qualified personnel to support its growth and if it is unable to retain or hire these personnel in the future, its ability to improve its products and implement its business objectives could be adversely affected.

We must attract, recruit and retain a sizeable workforce of technically competent employees. Competition for senior management and senior personnel in the PRC is intense, the pool of qualified candidates in the PRC is very limited, and we may not be able to retain the services of our senior executives or senior personnel, or attract and retain high-quality senior executives or senior personnel in the future. This failure could materially and adversely affect our future growth and financial condition. We expect to hire additional sales and plant personnel throughout fiscal year 2011 in order to accommodate our growth.

If we fail to increase our brand recognition, we may face difficulty in obtaining new customers and business partners.

We believe that establishing, maintaining and enhancing our brand in a cost-effective manner is critical to achieving widespread acceptance of our current and future products and services and is an important element in our effort to increase our customer base and obtain new business partners. We believe that the importance of brand recognition will increase as competition in our market develops. Some of our potential competitors already have well-established brands in the pharmaceutical promotion and distribution industry. Successful promotion of our brand will depend largely on our ability to maintain a sizeable and active customer base, our marketing efforts and ability to provide reliable and useful products and services at competitive prices. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we will incur in building our brand. If we fail to successfully promote and maintain our brand, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract enough new customers or retain our existing customers to the extent necessary to realize a sufficient return on our brand-building efforts, in which case our business, operating results and financial condition, would be materially adversely affected.

Our operating results may fluctuate as a result of factors beyond our control.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are beyond our control. These factors include:

- ·the costs of pharmaceutical products and development;
- ·the relative speed and success with which we can obtain and maintain customers, merchants and vendors for our products;
- ·capital expenditure for equipment;
- ·marketing and promotional activities and other costs;
- ·changes in our pricing policies, suppliers and competitors;
- ·the ability of our suppliers to provide products in a timely manner to their customers;
- ·changes in operating expenses;
- ·increased competition in the pharmaceutical markets; and
- ·other general economic and seasonal factors.

Table of Contents

We face risks related to product liability claims.

Our success depends on protection of our current and future technology and products and our ability to defend our intellectual property rights. We have filed for trademark protection for the various names and brands of our products sold in the PRC. We have also filed for patent protection on three of our products, one of which has been approved. However, it is possible for its competitors to develop similar competitive products even though it has taken steps to protect its intellectual property. If we fail to protect our intellectual property adequately, competitors may manufacture and market products similar to ours. We expect to file patent applications seeking to protect newly developed technology and products in various countries, including the PRC. Some patent applications in the PRC are maintained in secrecy until the patent is issued. Because the publication of discoveries tends to follow their actual discovery by many months, we may not be the first to invent, or file patent applications on any of our discoveries. Patents may not be issued with respect to any of our patent applications and existing or future patents issued to or licensed by us may not provide competitive advantages for our products. Patents that are issued may be challenged, invalidated or circumvented by our competitors. Furthermore, our patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

Our future sales and operations may be adversely affected by recent PRC reports that gel capsules supplied by certain manufacturers contained impermissible levels of chromium.

In April 2012, the PRC news agencies reported that the SFDA suspended sales and distributions of 13 drugs from 9 pharmaceutical companies that used capsules supplied by certain gel capsule manufacturers in Zhejiang and Hebei Provinces, PRC. According to the SFDA investigation and testing of capsule samples, 23 out of 42 samples were found to contain excessive levels of chromium, a toxic heavy metal. As further reported in the PRC mass media, the regulatory inquiry into this matter is ongoing. In addition to drug sale suspensions, SFDA also revoked production licenses of two gel capsule manufacturers and was pursuing other regulatory and criminal prosecution measures. As of April 27, 2012, SFDA promulgated a set of regulations requiring pharmaceutical companies to self-inspect and self-screen to ensure no toxic products in their inventory, including, without limitation, employing toxic substance detection devices.

In May 2012, following an onsite inspection by the Xianyang State Food and Drug Administration (SFDA), samples from a batch of the Company's Xin Aoxing capsules were found to contain chromium content higher than edible gelatin. Specifically, samples from a batch of 150 cases of the Xin Aoxing capsules (each of the 150 cases contains 8,000 capsules), representing Biostar sales of approximately RMB1,188,000 or approximately $188,000 were found to contain high levels of chromium, which capsules, in the Company's estimation, were sold in the market in mid-2011. The Company did not check the batch in question for the chromium levels at that time since PRC pharmaceutical companies were not required to test their gel capsule inventories and purchases for chromium levels in 2011.

As required by SFDA in April 2012, the Company purchased gel capsule inspection equipment to measure the chromium levels in gel capsules it used. The Company also undertook a thorough inspection of all samples of drugs sold and its current product inventory to ensure that all of the gel capsules it had purchased and currently uses comply with the SFDA chromium content requirements. In addition, the Company conducted checks of every batch of raw materials it uses in every production category and, except as discussed above, found no violations of the chromium content requirements. Further, the Company recalled all such affected capsules as promptly and thoroughly as possible, and imposed heightened quality control and assurance measures going forward. On July 30, 2012, the SFDA approved the Company's resumption of sales of its gel capsules following the thorough inspection. However, the suspension of sales of gel capsule products severely affected almost all China-based pharmaceutical companies that use gelatin capsules to manufacture their drugs. The Company was not immune to the industry-wide losses and, as discussed below, the Company's sales and overall results for the 2012 second quarter were similarly adversely

affected. The Company has been taking a number of steps to restart sales of gel capsule drugs immediately following the SFDA approval, including, among others, engaging its employees to work overtime, adding a second shift, launching an aggressive advertising campaign to help improve consumer confidence, establishing incentives for the sales force in all of the distribution offices nationwide, and launching an innovating B2C call center to take order and provide hands-on sales support. There is no assurance that the Company will be successful in detecting such defective gel capsules in the future. In any such event, the Company may be required to find alternate gel capsule supplier and its operations and sales efforts in the short-term may therefore be adversely affected.

We face marketing risks.

Newly developed drugs and technology may not be compatible with market needs. Because markets for drugs differentiate geographically inside the PRC, we must develop and manufacture our products to accurately target specific markets to ensure product sales. If we fail to invest in extensive market research to understand the health needs of consumers in different geographic areas, we may face limited market acceptance of our products, which could have material adverse effect on our sales and earnings.

Table of Contents

We face risks relating to difficulty in defending intellectual property rights from infringement.

Our success depends on protection of our current and future technology and products and our ability to defend our intellectual property rights. We have filed for trademark protection for the various names and brands of our products sold in the PRC. We have also filed for patent protection on three of our products, one of which has been approved. However, it is possible for its competitors to develop similar competitive products even though it has taken steps to protect its intellectual property. If we fail to protect our intellectual property adequately, competitors may manufacture and market products similar to ours. We expect to file patent applications seeking to protect newly developed technology and products in various countries, including the PRC. Some patent applications in the PRC are maintained in secrecy until the patent is issued. Because the publication of discoveries tends to follow their actual discovery by many months, we may not be the first to invent, or file patent applications on any of our discoveries. Patents may not be issued with respect to any of our patent applications and existing or future patents issued to or licensed by us may not provide competitive advantages for our products. Patents that are issued may be challenged, invalidated or circumvented by our competitors. Furthermore, our patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

We also rely on trade secrets, non-patented proprietary expertise and continuing technological innovation that we shall seek to protect, in part, by entering into confidentiality agreements with licensees, suppliers, employees and consultants. These agreements may be breached and there may not be adequate remedies in the event of a breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Moreover, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors. If patents are not issued with respect to products arising from research, we may not be able to maintain the confidentiality of information relating to these products.

We face risks relating to third parties that may claim that we infringe on their proprietary rights and may prevent us from manufacturing and selling certain of our products.

There has been substantial litigation in the pharmaceutical industry with respect to the manufacturing, use and sale of new products. These lawsuits relate to the validity and infringement of patents or proprietary rights of third parties. We may be required to commence or defend against charges relating to the infringement of patent or proprietary rights. Any such litigation could:

- require us to incur substantial expense, even if covered by insurance or are successful in the litigation;
- require us to divert significant time and effort of our technical and management personnel;
- result in the loss of our rights to develop or make certain products; and
- require us to pay substantial monetary damages or royalties in order to license proprietary rights from third parties.

Although patent and intellectual property disputes within the pharmaceutical industry have often been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include the long-term payment of royalties. These arrangements may be investigated by regulatory agencies and, if improper, may be invalidated. Furthermore, the required licenses may not be made available to us on acceptable terms. Accordingly, an adverse determination in a judicial or administrative proceeding or a failure to obtain necessary licenses could prevent us from manufacturing and selling some of our products or increase our costs to market these products.

In addition, when seeking regulatory approval for some of our products, we may be required to certify to regulatory authorities, including the SFDA that such products do not infringe upon third party patent rights. Filing a certification against a patent gives the patent holder the right to bring a patent infringement lawsuit against us. Any lawsuit would

delay the receipt of regulatory approvals. A claim of infringement and the resulting delay could result in substantial expenses and even prevent us from manufacturing and selling certain of our products.

Our launch of a product prior to a final court decision or the expiration of a patent held by a third party may result in substantial damages to us. If we are found to infringe a patent held by a third party and become subject to such damages, these damages could have a material adverse effect on the results of our operations and financial condition.

We face risks related to research and the ability to develop new drugs.

Our growth and survival depends on our ability to consistently discover, develop and commercialize new products and find new and improve on existing technology and platforms. As such, if we fail to make sufficient investments in research, be attentive to consumer needs or does not focus on the most advanced technology, our current and future products could be surpassed by more effective or advanced products of other companies.

Table of Contents

Risk Related To the Pharmaceutical Industry

Our certificates, permits, and licenses related to our pharmaceutical operations are subject to governmental control and renewal and failure to obtain renewal will cause all or part of our operations to be terminated.

Aoxing Pharmaceutical is subject to various PRC laws and regulations pertaining to the pharmaceutical industry. Aoxing Pharmaceutical has attained certificates, permits, and licenses required for the operation of a pharmaceutical enterprise and the manufacturing of pharmaceutical products in the PRC.

In 1998, the State Food and Drug Administration of the PRC ("SFDA") introduced the Good Manufacturing Practice (GMP) Certificate in order to promote quality and safety of pharmaceutical production. The Good Manufacturing Practices were revised in July and October, 2004. We and our competitors are required to meet GMP standards in order to continue manufacturing pharmaceutical products and health foods. For each new product, Aoxing Pharmaceutical prepares documentation of pharmacological, toxicity, pharmacokinetics and drug metabolism studies in addition to providing samples of the drug. The documentation and samples are then submitted to provincial food and drug administration. This process typically takes approximately three months. After the documentation and samples have been approved by the provincial food and drug administration, the provincial administration submits the approved documentation and samples to the SFDA. The SFDA examines the documentation and tests the samples and presents the findings to the New Drug Examination Committee for approval. If the application is approved by the SFDA, the SFDA will issue a clinical trial license to the applicant for clinical trials. This clinical trial license approval typically takes one year, followed by approximately two years of trials, depending on the category and class of the new drug. The SFDA then examines the documentation from the trial and, if approved, issues the new drug license to the applicant. This process usually takes eight months. The entire process takes anywhere from three to four years.

Aoxing Pharmaceutical initially obtained pharmaceutical products and health food production permits by submitting its manufacturing processes and product tests to the SFDA who verified that its production processes and products met the standards by onsite inspections, review of test results and a determination that the market was not saturated by its products. The production permits are permanent once issued as long as they are renewed by the expiration date.

The GMP certificate is valid for a term of five years, the pharmaceutical products production permits are subject to renewal every five years, and the health food production permits are valid for three year terms, and each must be renewed before its expiration, if applicable. Aoxing Pharmaceutical originally obtained its GMP certificate in January 2006, and it is valid until January 23, 2011. The GMP certificate applies to products described as medicinal tablets, granules, capsules, soft capsules, powder, and ointment. If the GMP certificate expires without renewal, Aoxing Pharmaceutical will not be able to continue production of pharmaceutical products, which will cause its operations to terminate. We filed the application to renew the GMP certificate before its expiration date, and SFDA has approved our application and issued its official GMP license on March 29, 2011. It is a common practice in China to have the grace period between the GMP expiry day and new GMP license day.

We intend to apply for renewal of these health food production permits prior to expiration. During the renewal process, Aoxing Pharmaceutical will be re-evaluated by the appropriate governmental authorities and must comply with the then prevailing standards and regulations which may change from time to time. In the event that it is not able to renew the certificates, permits and licenses, all or part of its operations may be terminated. Furthermore, if escalating compliance costs associated with governmental standards and regulations restrict or prohibit any part of its operations, it may adversely affect its operation and our profitability.

According to Drug Administration Law of the PRC and its implementing rules, the SFDA approvals, including Pharmaceutical Manufacturing Permit and Drug Approval Numbers, may be suspended or revoked prior to the expiration date under circumstances that include:

·producing counterfeit medicine;
·producing inferior quality products;
·failing to meet the drug GMP standards;
·purchasing medical ingredients used in the production of products sources that do not have Pharmaceutical Manufacturing Permit or Pharmaceutical Trade Permit;
·fraudulent reporting of results or product samples in application process;
·failing to meet drug labeling and direction standards;
·bribing doctors or hospital personnel to entice them to use products,
·producing pharmaceuticals for use or resale by companies that are not approved by the SFDA, or
·the approved drug has a serious side effect.

Table of Contents

If our pharmaceutical products fail to receive regulatory approval or are severely limited in these products' scope of use, we may be unable to recoup considerable research and development expenditures.

Our research and development of pharmaceutical products is subject to the regulatory approval of the SFDA. The regulatory approval procedure for pharmaceuticals can be quite lengthy, costly, and uncertain. Depending upon the discretion of the SFDA, the approval process may be significantly delayed by additional clinical testing and require the expenditure of resources not currently available; in such an event, it may be necessary for us to abandon our application. Even where approval of the product is granted, it may contain significant limitations in the form of narrow indications, warnings, precautions, or contra-indications with respect to conditions of use. If approval of our product is denied, abandoned, or severely limited in terms of the scope of products use, it may result in the inability to recoup considerable research and development expenditures. Currently, three of our products, Zushima, Gan Fu Kang and Azithromycin Dispersible Tablets, have pending applications with the SFDA. Phase II clinical testing is currently occurring for five other products (Shenrong Capsules, Zhixuening Pian, Xiao'aiping Dispersible Tablets, Zhenbao Wan Capsules, and KunLing Wan Capsules), which is expected to be completed sometime in 2012 to 2015. After phase II clinical test, these products will need to go through a phase III clinical test before they can be submitted for SFDA approval. We expect phase III clinical test for all six products will be completed sometime in 2015 to 2017. If we do not receive timely approval for any of these drugs, then production will be delayed and sales of the products cannot be planned for.

Price control regulations may decrease our profitability.

The laws of the PRC provide for the government to fix and adjust prices. The prices of certain medicines we distribute, including those listed in the Chinese government's catalogue of medications that are reimbursable under the PRC’s social insurance program, or the Insurance Catalogue, are subject to control by the relevant state or provincial price administration authorities. The PRC establishes price levels for products based on market conditions, average industry cost, supply and demand and social responsibility. In practice, price control with respect to these medicines sets a ceiling on their retail price. The actual price of such medicines set by manufacturers, wholesalers and retailers cannot historically exceed the price ceiling imposed by applicable government price control regulations. Although, as a general matter, government price control regulations have resulted in drug prices tending to decline over time, there has been no predictable pattern for such decreases.

For the period ended September 30, 2012 and year ended December 31, 2011, our Danshen Granule is the only product at Aoxing Pharmaceutical subject to price controls which did not affect our gross profit, gross margin and net income in a material respect. It is possible that additional products may be subject to price control, or that price controls may be increased in the future. To the extent that our products are subject to price control, our revenue, gross profit, gross margin and net income will be affected since the revenue we derive from our sales will be limited and we may face no limitation on our costs. Further, if price controls affect both our revenue and costs, our ability to be profitable and the extent of our profitability will be effectively subject to determination by the applicable regulatory authorities in the PRC.

If the medications we produce are replaced by other medicines or are removed from the PRC's insurance catalogue in the future, our revenue may suffer.

Under Chinese regulations, patients purchasing medicine listed by the central and/or provincial governments in the insurance catalogue may be reimbursed, in part or in whole, by a social medicine fund. Accordingly, pharmaceutical distributors prefer to engage in the distribution of medicine listed in the insurance catalogue. Currently, one of our main prescription products, Danshen Granule is listed in the insurance catalogue. The content of the insurance catalogue is subject to change by the PRC Ministry of Labor and Social Security, and new medicine may be added to the insurance catalogue by provincial level authorities as part of their limited ability to change certain medicines listed

in the insurance catalogue. If the medicine we produce are replaced by other medicines or removed from the insurance catalogue in the future, our revenue may suffer.

Adverse publicity associated with our products, ingredients or network marketing program, or those of similar companies, could harm our financial condition and operating results.

The results of our operations may be significantly affected by the public's perception of our product and similar companies. This perception is dependent upon opinions concerning:

- the safety and quality of our products and ingredients;
- the safety and quality of similar products and ingredients distributed by other companies; and
- our sales force.

Adverse publicity concerning any actual or purported failure to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, or other aspects of our business, whether or not resulting in enforcement actions or the imposition of penalties, could have an adverse effect on our goodwill and could negatively affect our sales and ability to generate revenue.

Table of Contents

In addition, our consumers' perception of the safety and quality of products and ingredients as well as similar products and ingredients distributed by other companies can be significantly influenced by media attention, publicized scientific research or findings, widespread product liability claims and other publicity concerning our products or ingredients or similar products and ingredients distributed by other companies. Adverse publicity, whether or not accurate or resulting from consumers' use or misuse of our products, that associates consumption of our products or ingredients or any similar products or ingredients with illness or other adverse effects, questions the benefits of our or similar products or claims that any such products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could negatively impact our reputation or the market demand for our products.

If we fail to develop new products with high profit margins, and our high profit margin products are substituted by competitor's products, our gross and net profit margins will be adversely affected.

There is no assurance that we will be able to sustain our profit margins in the future. The pharmaceutical industry in the PRC is very competitive, and there may be pressure to reduce sale prices of products without a corresponding decrease in the price of raw materials. In addition, new products are constantly being introduced to the market. In order to increase our sales and expand our market share, we may be forced to reduce prices in the future, leading to a decrease in gross profit margin. The research and development of new products and technology is costly and time consuming, and there are no assurances that our research and development of new products will either be successful or completed within the anticipated timeframe, if ever at all. There is no assurance that our competitors' new products, technology, and processes will not render our existing products obsolete or non-competitive. To the extent that we fail to develop new products with high profit margins and our high profit margin products are substituted by competitors' products, our gross profit margins will be adversely affected.

The commercial success of our products depends upon the degree of market acceptance among the medical community and failure to attain market acceptance among the medical community may have an adverse impact on our operations and profitability.

The commercial success of our products depends upon the degree of market acceptance by the PRC medical community, such as hospitals and physicians. Even if our products are approved by the SFDA, there is no assurance that physicians will prescribe or recommend our products to patients. Furthermore, a product's prevalence and use at hospitals may be contingent upon its relationship with the medical community. Currently, Danshen Granule and Taohausan are only available by medical prescription. The acceptance of our products by the PRC medical community may depend upon several factors, including but not limited to, the product's acceptance by physicians and patients as a safe and effective treatment, cost effectiveness, potential advantages over alternative treatments, and the prevalence and severity of side effects. Failure to attain market acceptance among the medical community may have an adverse impact on our operations and profitability.

Risks Related To Doing Business In The PRC

Changes in the policies of the PRC government could have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.

Our business operations may be adversely affected by the current and future political environment in the PRC. The PRC has operated as a socialist state since the mid-1900s and is controlled by the PRC’s Communist Party. The Chinese government exerts substantial influence and control over the manner in which we and it must conduct our business activities. The PRC has only permitted provincial and local economic autonomy and private economic activities since 1988. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, particularly the pharmaceutical industry, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations,

including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

The PRC's economy is in a transition from a planned economy to a market oriented economy subject to five-year and annual plans adopted by the government that set national economic development goals. Policies of the PRC government can have significant effects on the economic conditions of the PRC. The PRC government has confirmed that economic development will follow the model of a market economy. Under this direction, we believe that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces. While we believe that this trend will continue, there can be no assurance that this will be the case.

A change in policies by the PRC government could adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. Although the PRC government has been pursuing economic reform policies for more than two decades, there is no assurance that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting the PRC's political, economic and social life.

Table of Contents

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC laws and regulations may harm its business.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. The PRC's legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We are considered a foreign person or foreign funded enterprise under PRC laws, and as a result, we are required to comply with PRC laws and regulations. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on its businesses. If the relevant authorities find that we are in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

·levying fines;
·revoking Aoxing Pharmaceutical's business and other licenses;
·requiring that we restructure our ownership or operations; and
·requiring that we discontinue any portion or all of our business.

Among the material laws of the PRC that we are subject to are (i) the Medicine Management Law, governing the management of pharmaceutical companies, medicine production procedure and packaging, prices, (ii) the Advertisement Law , the Rules of Medicine Advertisements Management implemented by the State Administration for Industry and Commerce, and the Regulations on Control of Advertisements from the State Council, governing rules on advertising, (iii) the Standardization of the Management on the Quality of Medicine Production issued by the SFDA, providing standards for staff, plants, equipment, materials, environment and production management, (iv) the Price Law, (v) the Measurement Law, (vi) the Tax Law, (vii) the Environmental Protection Law, (viii) the Contract Law, (ix) the Patent Law, (x) the Accounting Laws and (xi) the Labor Law.

A slowdown, inflation or other adverse developments in the PRC economy may harm our customers and the demand for our services and products.

All of our operations are conducted in the PRC and all of our revenue is generated from sales in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that this growth will continue. A slowdown in overall economic growth, an economic downturn, a recession or other adverse economic developments in the PRC could significantly reduce the demand for our products and harm our business.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth could lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may harm our profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy can lead to a slowing of economic growth. In October 2004, the People's Bank of China, the PRC's central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was

prompted by inflationary concerns in the Chinese economy. Repeated rises in interest rates by the central bank would likely slow economic activity in the PRC which could, in turn, materially increase its costs and also reduce demand for its products.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of the Chinese currency, the Renminbi ("RMB"), into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenue in RMB, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also in the future restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

Table of Contents

The fluctuation of the Renminbi may harm your investment.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. According to the website www.oanda.com, as of September 30, 2012, $1 was equal to RMB 6.3340. As we rely entirely on revenue earned in the PRC, any significant revaluation of the RMB may materially and adversely affect our cash flows, revenue and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into RMB for Aoxing Pharmaceutical’s operations, appreciation of the RMB against the U.S. dollar would diminish the value of the proceeds of the offering and this could harm Aoxing Pharmaceutical’s business, financial condition and results of operations because it would reduce the proceeds available to us for capital investment in proportion to the appreciation of the RMB. Thus if we raise 1,000,000 dollars and the RMB appreciates against the U.S. dollar by 15%, then the proceeds will be worth only RMB 5,383,900 as opposed to RMB 6,334,000 prior to the appreciation. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the RMB; the U.S. dollar equivalent of the RMB we convert would be reduced in proportion to the amount the U.S. dollar appreciates. In addition, the depreciation of significant RMB denominated assets could result in a charge to our income statement and a reduction in the dollar value of these assets. Thus if Aoxing Pharmaceutical has RMB 1,000,000 in assets and RMB is depreciated against the U.S. dollar by 15%, then the assets will be valued at $134,196 as opposed to $157,878 prior to the depreciation.

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 30% appreciation of the RMB against the U.S. dollar as of September 30, 2012. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar.

The State Administration of Foreign Exchange of the PRC ("SAFE") regulations regarding offshore financing activities by PRC residents which may increase the administrative burden we face. The failure by our shareholders who are PRC residents to make any required applications and filings pursuant to such regulations may prevent us from being able to distribute profits and could expose us and our PRC resident shareholders to liability under PRC law.

In October 2005, SAFE issued a public notice effective from November 1, 2005, the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, or the SAFE notice or SAFE #75, which requires PRC residents, including both legal persons and natural persons, to register with the competent local SAFE branch before establishing or controlling any company outside of the PRC, referred to as an "offshore special purpose company," for the purpose of overseas equity financing involving onshore assets or equity interests held by them. In addition, any PRC resident that is the shareholder of an offshore special purpose company is required to amend its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in the PRC. Moreover, if the offshore special purpose company was established and owned the onshore assets or equity interests before the implementation date of the SAFE notice, a retroactive SAFE registration is required to have been completed before March 31, 2006. If any PRC shareholder of any offshore special purpose company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore special purpose company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore special purpose company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Certain of our shareholders who may be subject to the foregoing registration requirement (including certain members of our management) have submitted their registration applications to the relevant SAFE authority as well as notified the local authority where we are domiciled of such applications. We have been advised by such SAFE authority, however, that it is unable to issue SAFE registration due to current internal policy, but may issue a confirmation acknowledging receipt of our applications in lieu thereof, and issue the SAFE registration at a later time when internal policy changes. There is no assurance, however, that we will receive such confirmation or that such confirmation, when issued, would be sufficient for compliance purpose with the SAFE notice. Additionally, we do not know when the internal policy of the relevant SAFE authority will change, if at all, and there is no assurance that when such policy changes, we will be issued SAFE registration. As such, we or our PRC resident shareholders may nevertheless be deemed in violation of SAFE #75 despite our attempt at compliance.

In the event that we or our PRC resident shareholders are deemed to be in violation of SAFE #75 despite our attempt at compliance, Shaanxi Biostar could lose the ability to remit monies outside of the PRC and would therefore be unable to pay dividends or make other distributions. Our PRC resident shareholders could be subject to fines, other sanctions and even criminal liabilities under the PRC Foreign Exchange Administrative Regulations promulgated January 29, 1996, as amended.

Table of Contents

The PRC's legal and judicial system may not adequately protect our business and operations and the rights of foreign investors.

The PRC legal and judicial system may negatively impact foreign investors. In 1982, the National People's Congress amended the Constitution of the PRC to authorize foreign investment and guarantee the "lawful rights and interests" of foreign investors in the PRC. However, the PRC's system of laws is not yet comprehensive. The legal and judicial systems in the PRC are still rudimentary, and enforcement of existing laws is inconsistent. Many judges in the PRC lack the depth of legal training and experience that would be expected of a judge in a more developed country. Because the PRC judiciary is relatively inexperienced in enforcing the laws that do exist, anticipation of judicial decision-making is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. The PRC's legal system is based on the civil law regime, that is, it is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may be varied to reflect domestic political changes.

The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. However, the trend of legislation over the last 20 years has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises. There can be no assurance that a change in leadership, social or political disruption, or unforeseen circumstances affecting the PRC's political, economic or social life, will not affect the PRC government's ability to continue to support and pursue these reforms. Such a shift could have a material adverse effect on our business and prospects.

The practical effect of the PRC legal system on our business operations in the PRC can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the Foreign Invested Enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate Articles and contracts to Foreign Invested Enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are qualitatively different from the general corporation laws of the United States. Similarly, the PRC accounting laws mandate accounting practices, which are not consistent with U.S. generally accepted accounting principles. PRC's accounting laws require that an annual "statutory audit" be performed in accordance with PRC accounting standards and that the books of account of Foreign Invested Enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People's Republic of China Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities, at the risk of business license revocation. While the enforcement of substantive rights may appear less clear than United States procedures, the Foreign Invested Enterprises and Wholly Foreign-Owned Enterprises are Chinese registered companies, which enjoy the same status as other Chinese registered companies in business-to-business dispute resolution. Any award rendered by an arbitration tribunal is enforceable in accordance with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of Foreign Invested Enterprises.

Any recurrence of severe acute respiratory syndrome, or SARS, or another widespread public health problem, could harm our operations.

A renewed outbreak of SARS or another widespread public health problem (such as bird flu) in the PRC, where all of our revenue is derived, could significantly harm our operations. Our operations may be impacted by a number of health-related factors, including quarantines or closures of some of our offices that would adversely disrupt our operations. Any of the foregoing events or other unforeseen consequences of public health problems could

significantly harm our operations.

Because our principal assets are located outside of the United States and most of our directors and officers reside outside of the United States, it may be difficult for you to enforce your rights based on U.S. Federal Securities Laws against us and our officers or to enforce U.S. Court Judgments against us or them in the PRC

Most of our directors and all of our officers reside in China. In addition, our operating company is located in the PRC and substantially all of our assets are located outside of the United States. It may therefore be difficult for investors in the United States to enforce their legal rights based on the civil liability provisions of the U.S. Federal securities laws against us in the courts of either the U.S. or the PRC and, even if civil judgments are obtained in U.S. courts, to enforce such judgments in PRC courts. Further, it is unclear if extradition treaties now in effect between the United States and the PRC would permit effective enforcement against us or our officers and directors of criminal penalties, under the U.S. Federal securities laws or otherwise.

Table of Contents

The relative lack of public company experience of our management team may put us at a competitive disadvantage.

Our management team lacks public company experience, which could impair our ability to comply with legal and regulatory requirements such as those imposed by Sarbanes-Oxley Act of 2002. The individuals who now constitute our senior management have never had responsibility for managing a publicly traded company. Such responsibilities include complying with federal securities laws and making required disclosures on a timely basis. Our senior management may not be able to implement programs and policies in an effective and timely manner that adequately responds to such increased legal, regulatory compliance and reporting requirements. Our failure to comply with all applicable requirements could lead to the imposition of fines and penalties and distract our management from attending to the growth of our business.

Risks Relating to our Common Stock

Our officers and directors control us through their positions and stock ownership, and their interests may differ from other stockholders.

As of September 30, 2012, there were 9,400,216 shares of our common stock issued and outstanding. Our officers and directors own approximately 33% of our common stock. Mr. Ronghua Wang, our Chairman of the Board and CEO, owns approximately 32.5% of our common stock. As a result, he is able to influence the outcome of stockholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. Yet Mr. Wang's interests may differ from those of other stockholders. Furthermore, ownership of 35.2% of our common stock by our officers and directors reduces the public float and liquidity, and may affect the market price, of our common stock.

We are not likely to pay cash dividends in the foreseeable future.

We intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future but will review this policy as circumstances dictate. Should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions.

Our common shares have historically been thinly traded, and you may be unable to sell at or near ask prices or at all if you desire to liquidate your shares.

We cannot predict the extent to which an active public market for our common stock will develop or be sustained. Our common stock commenced trading on The Nasdaq Global Market on April 23, 2010. Our common stock was previously quoted on the OTC Bulletin Board, where they have historically been sporadically or “thinly traded”, meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current

trading levels will be sustained.

The market price for our common stock is particularly volatile given our status as a relatively small company with a small and thinly traded “float” that could lead to wide fluctuations in our share price. The price at which you purchase our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you.

Table of Contents

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our fluctuating level of revenues or profits to date and uncertainty of future market acceptance for our current and potential products. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; adverse outcomes; the termination of our contractual arrangements with Aoxing Pharmaceutical; and additions or departures of our key personnel, as well as other items discussed under this "Risk Factors" section, as well as elsewhere in this report. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Stockholders should be aware that the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Volatility in our common share price may subject us to securities litigation.

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

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

During the nine months ended September 30, 2012, neither the Company, nor any of its affiliated purchasers repurchased any of the Company's securities. The Company did not sell any unregistered securities during the same fiscal period.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits.

Exhibit Number	Description
3.1	Articles of Incorporation filed with the corporate secretary of State of the State of Maryland on March 27, 2007 (1)
3.2	Articles of Amendment filed with the corporate secretary of State of the State of Maryland on August 1, 2007 (1)
3.3	Articles of Amendment filed with the corporate secretary of State of the State of Maryland on September 14, 2007 (1)
3.4	Certificate of Designation for the Series B Convertible Preferred Stock as filed with the corporate secretary of State of Maryland on November 2, 2009 (2)
3.5	Articles of Amendment to the Articles of Incorporation of Biostar Pharmaceuticals, Inc. (4)
3.6	Bylaws (1)
10.1	Shaanxi Weinan Share Transfer Agreement (3)
10.2	Form Non-competition Agreement (3)
10.3	Amendment No.1 to the Employment Agreement (5)
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document

* Filed herewith.

(1) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-147363) filed with the SEC on November 13, 2007.
(2) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on November 3, 2009.
(3) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on
(4) October 11, 2011 and Previously filed as an exhibit to the Company's Current Report on Form 8-K
(5) filed with the SEC on April 4, 2012 and is incorporated by reference herein.
Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2012.
Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on April 24, 2012.

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIOSTAR PHARMACEUTICALS, INC.
(Registrant)

Date: November 19, 2012	By:	/s/ Ronghua Wang Ronghua Wang Chief Executive Officer and President (Principal Executive Officer)
Date: November 19, 2012	By:	/s/ Zack Pan Zack Pan Chief Financial Officer (Principal Financial and Accounting Officer)

Table of Contents