Biostar Pharmaceuticals, Inc.
Form 10-K
April 15, 2013

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

FORM 10-K

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

For the fiscal year ended: December 31, 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)

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

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

Securities Registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	NASDAQ Stock Market LLC

(NASDAQ Global Market)

Securities Registered pursuant to Section 12(g) of the Act: Common stock, par value $0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

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

As of the close of business on June 29, 2012, the aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant was approximately $8,600,038.88 based on the closing sale price of $1.36 per share of our common stock on NASDAQ Stock Market LLC on June 29, 2012.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practicable date: 11,596,113 shares of common stock issued and outstanding as of April 12, 2013.

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FOR YEAER ENDED DECEMBER 31, 2012

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CAUTION REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this annual Report on Form 10-K ("Form 10-K") for Biostar Pharmaceuticals, Inc., other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words "believe," "anticipate," "expect" and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties that may cause actual results to differ materially.

Such risks include, among others, the following: national and local general economic and market conditions; our ability to sustain, manage or forecast our growth; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Consequently, all of the forward-looking statements made in this Form 10-K are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

These statements reflect our current view of future events and are subject to certain risks and uncertainties as noted below. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. Many factors could cause actual results to differ materially from our forward looking statements including those set forth in Item 1A of this report. Other unknown, unidentified or unpredictable factors could materially and adversely impact our future results. 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.

We file reports with the Securities and Exchange Commission ("SEC" or "Commission"). We make available on our website (http://www.andatee.com) free of charge our public reports filed pursuant to the Exchange Act and amendments to those reports as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. Information appearing at our website is not a part of this Annual Report on Form 10-K. You can also read and copy any materials we file with the Commission at its Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the Commission maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission, including our reports.

Our fiscal year begins on January 1, and ends on December 31, and any references herein to "Fiscal 2012" mean the year ended December 31, 2012, and references to other "Fiscal" years mean the year ending December 31, of the year indicated.

We obtained statistical data, market data and other industry data and forecasts used in this Form 10-K from publicly available information. While we believe that the statistical data, industry data, forecasts and market research are

reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of that information.

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PART I

ITEM 1. Business

Overview

Biostar Pharmaceuticals, Inc. (“Biostar”) is a holding company that, through our wholly-owned subsidiary Shaanxi Biostar Biotech, Ltd. (“Shaanxi Biostar”) and our variable interest entities ("VIEs") Shaanxi Aoxing Pharmaceutical Co., Ltd. (“Aoxing Pharmaceutical”), and Shaanxi Weinan Aoxing Pharmaceuticals, LLC (“Shaanxi Weinan”) develops, manufactures and markets pharmaceutical products for a variety of diseases and conditions in the People’s Republic of China (the “PRC” or “China”).

Corporate Organization and History

Biostar was incorporated in the State of Maryland on March 27, 2007. Through the steps described immediately below, we became the indirect holding company for Aoxing Pharmaceutical, a medical and pharmaceutical developer, manufacturer and marketer in the PRC on November 1, 2007.

On June 15, 2007, we formed Shaanxi Biostar in the PRC as our wholly-owned subsidiary. Because Shaanxi Biostar is wholly-owned by Biostar, a U.S. company, it is a wholly foreign-owned enterprise, or WFOE, under PRC laws.

Aoxing Pharmaceutical was formed on May 8, 1997, as a limited liability company under the laws of the PRC. Its current registered address is No. 588 Shiji Xi Road, Xianyang, Shaanxi Province, PRC, and its registered capital is Renminbi (“RMB”) 61,800,000.

On November 1, 2007, Shaanxi Biostar and Aoxing Pharmaceutical entered into a series of agreements (collectively the “Contractual Arrangements”) pursuant to which we have acquired control over Aoxing Pharmaceutical and which requires us to consolidate the profits and losses of Aoxing Pharmaceutical under U.S. Generally Accepted Accounting Principles (“GAAP”):

Management Entrustment Agreement. Pursuant to the management entrustment agreement, Aoxing Pharmaceutical and its shareholders agreed to transfer control, or entrust, the operations and management of Aoxing Pharmaceutical’s business to Shaanxi Biostar. Shaanxi Biostar manages the operations and assets of Aoxing Pharmaceutical, controls all of the cash flow of Aoxing Pharmaceutical through a bank account controlled by Shaanxi Biostar, is entitled to all of the net profits of Aoxing Pharmaceutical as a management fee, and is obligated to pay all payables and loan payments of Aoxing Pharmaceutical. In addition, Shaanxi Biostar has been granted certain rights which include, in part, the right to appoint and terminate members of Aoxing Pharmaceutical’s board of directors, hire management and administrative personnel and control decisions relating to entering and performing customer contracts and other instruments. We anticipate that Aoxing Pharmaceutical will continue to be the contracting party under its customer contracts, bank loans and certain other instruments unless Shaanxi Biostar exercises its option. Global Law Office, our PRC counsel, has advised us that in their opinion the management entrustment agreement is legal and enforceable under PRC law.

In exchange for causing Aoxing Pharmaceutical to enter into the management entrustment agreement, we issued an aggregate of 6,610,771 shares our common stock to the shareholders of Aoxing Pharmaceutical, which was allocated based on their respective pro rata ownership of Aoxing Pharmaceutical.

On May 6, 2008, Shaanxi Biostar entered into an amended and restated management entrustment agreement with Aoxing Pharmaceutical and its shareholders in order to remove a provision that allows the management entrustment agreement to be terminated at a mutually agreed date. As amended and restated, the management entrustment

agreement, and all of the attendant rights of Shaanxi Biostar, remains in effect until such time that Shaanxi Biostar acquires all of the assets or equity of Aoxing Pharmaceutical under the terms of the exclusive option agreement as more fully described below, or until Aoxing Pharmaceutical ceases its business operations.

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Voting Proxy Agreement. In order to give us further control over Aoxing Pharmaceutical, Aoxing Pharmaceutical's shareholders entered into a voting proxy agreement with Shaanxi Biostar, whereby these shareholders irrevocably and exclusively appointed the members of Shaanxi Biostar's board of directors as their proxies to vote on all Aoxing Pharmaceutical matters that require shareholder approval, including, without limitation, the right to appoint members of Aoxing Pharmaceutical's board of directors. The voting proxy agreement further provides that Shaanxi Biostar will appoint all members of Biostar's board of directors to Aoxing Pharmaceutical's board of directors. As the composition of Biostar's board of directors changes, Shaanxi Biostar must accordingly remove and appoint new members to Aoxing Pharmaceutical's board of directors. The voting proxy agreement terminates upon the exercise of the option by Shaanxi Biostar to purchase the shares of Aoxing Pharmaceutical as described below, and is governed by the laws of the PRC.

Exclusive Option Agreement. In order to permit Aoxing Pharmaceutical to become an indirectly wholly-owned subsidiary of Biostar when permitted under PRC law, Aoxing Pharmaceutical and its shareholders entered into an exclusive option agreement with Shaanxi Biostar, whereby Aoxing Pharmaceutical's shareholders granted Shaanxi Biostar an irrevocable and exclusive purchase option (the "Option") to acquire Aoxing Pharmaceutical's equity and/or remaining assets, but only to the extent that the acquisition does not violate limitations imposed by PRC law on such transactions. Current PRC law does not specifically provide for the equity of a non-PRC entity to be used as consideration for the purchase of a PRC entity's assets or equity unless the value of the shares are equal to or greater than the value of the enterprise acquired. In addition, there is a lengthy appraisal process which must be approved by the provincial PRC government entities. The consideration for the exercise of the Option is to be determined by the parties and memorialized in future definitive agreements setting forth the kind and value of such consideration.

We will consider exercising the Option under such circumstances we believe will be in the best interests of the Company and our shareholders, and the exclusive option agreement has been drafted to give us such flexibility. In considering whether or not we will exercise the Option, we may consider such factors as: (1) if the exercise price can be lower than the appraised value under current PRC law, (2) availability of funds, (3) any relevant tax considerations at the time, (4) any other relevant PRC laws that may exist at the time, (5) the value of our shares that were previously paid to Aoxing Pharmaceutical's shareholders, and (6) whether or not the exercise of the Option will provide any other additional benefits to us or our shareholders. Upon exercise of the Option, the parties will prepare transfer documents to be submitted for governmental approval and work together to obtain all approvals and permits. The exclusive option agreement may be terminated by the agreement of all parties or by Shaanxi Biostar with 30 days' notice, and is governed by the laws of the PRC.

Share Pledge Agreement. In order to further solidify our control over Aoxing Pharmaceutical, Shaanxi Biostar and Aoxing Pharmaceutical's shareholders entered into a share pledge agreement, whereby Aoxing Pharmaceutical's shareholders pledged all of their equity interests in Aoxing Pharmaceutical, including the proceeds thereof, to guarantee the performance by the shareholders of all of the agreements they entered into with Shaanxi Biostar. Upon breach by any shareholder of any of the Contractual Arrangements, Shaanxi Biostar is entitled by operation of law to become the beneficial owner of the shareholders' equity interests of Aoxing Pharmaceutical. Prior to termination of the share pledge agreement, the pledged equity interests of Aoxing Pharmaceutical cannot be transferred without Shaanxi Biostar's prior written consent. The share pledge agreement will not terminate until agreed to by all of the parties in writing, and is governed by the laws of the PRC.

The Contractual Arrangements described above were utilized instead of a direct acquisition of the assets, common stock or a share exchange because we could not pay cash to directly or indirectly acquire Aoxing Pharmaceutical or its assets. PRC law permits the purchase of equity interests, or assets of a PRC entity by a non-PRC entity for cash. The purchase price must be based on the appraised value of the equity or assets. Because we did not have sufficient cash to pay the estimated full value of all of the assets of Aoxing Pharmaceutical, we, through Shaanxi Biostar, entered into the Contractual Arrangements in exchange for the right to exercise functional control over Aoxing Pharmaceutical, and we obtained substantially the same result as a direct share exchange with Aoxing Pharmaceutical.

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

The Contractual Agreements dated July 9, 2010 are merely replacement of the Contractual Agreements dated November 1, 2007 and therefore, no significant change in the contractual terms between the Contractual Agreements entered dated 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 Contractual Agreements on July 9, 2010. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Contractual Agreements.

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Shaanxi Biostar's control over Aoxing Pharmaceutical under the Contractual Arrangements requires us to consolidate its financial statements pursuant to the FASB Interpretation 46, "Consolidation of Variable Interest Entities (VIEs)", an Interpretation of Accounting Research Bulletin No. 51, included in the Accounting Standards Codification ("ASC") 810, Consolidation because Aoxing Pharmaceutical is considered a VIE of Shaanxi Biostar. ASC 810, Consolidation requires a VIE to be consolidated by any company that is subject to a majority of the risk of loss for the variable interest entity or is entitled to receive a majority of the variable interest entity's residual returns. Since Shaanxi Biostar is the primary and only beneficiary of Aoxing Pharmaceutical (the VIE), ASC 810 Consolidation requires the consolidation of its financial statements with Shaanxi Biostar and ultimately consolidated with Shaanxi Biostar's parent company, 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 RMB7.85 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 RMB 61 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 was changed to Shaanxi Weinan Aoxing Pharmaceuticals, LLC.

The following diagram illustrates our current corporate structure:

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On April 3, 2012, the Company effected a one-for-three reverse stock split of the issued and outstanding common stock of the Company (the "Reserve Split"). 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. Holders of the Company's common stock are deemed to hold one whole, post-split share of the Company's common stock for every three whole, pre-split shares of the Company's issued and outstanding common stock. Fractional share holdings are rounded up to the nearest whole number. At the market opening on April 4, 2012, the Company's common stock began trading on The NASDAQ Stock Market on a post-split adjusted basis. The Company's common stock continues to trade under the symbol "BSPM,", but is assigned a new CUSIP number. All common stock related data in this annual report has been adjusted retroactively to reflect the reverse stock split.

On September 24, 2012, we, through Aoxing Pharmaceutical, signed a one-year agreement to manufacture and supply three new drugs: Gastritis Granule, Pharyngitis Granule and Nasosinusitis Granule to Xijing Hospital, a military hospital managed by the Fourth Military Medical University, one of China's most prestigious military medical universities and research centers. We started to deliver the monthly supply in October 2012. These three drugs are exclusively sold at and given to patients admitted to Xijing Hospital for treatment. Gastritis Granule is used to treat chronic and atrophic gastritis; Pharyngitis Granule is used to treat acute and chronic throat inflammation; and Nasosinusitis Granule is used to treat acute and chronic sinusitis.

On March 11, 2013, Aoxing Pharmaceutical entered into a supplemental agreement to the Share Transfer Agreement with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Share Transfer Agreement due to incomplete reregistration. Following the execution of the supplemental agreement, the Company will acquire the ownership of the 13 drug approval numbers for which reregistration has been completed. The aggregate purchase price is RMB 66 million (approximately $10.6 million) for the 13 drug approval numbers, of which RMB 30 million (approximately $4.8 million) was paid on November 26, 2012, RMB 25 million (approximately $4.0 million) was paid on December 31, 2012 and the balance of RMB 11 million (approximately $1.8 million) shall be paid in the Company's common stock. Based on an agreed issuance price of $1.10 per share, RMB 11 million is equivalent to 1,602,564 shares of common stock of the Company. The Company completed this acquisition in April 2013.

When we sell our equity or borrow funds, we expect the proceeds will be forwarded to Aoxing Pharmaceutical and accounted for as a loan to Aoxing Pharmaceutical and eliminated during consolidation. 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.

Neither Biostar nor Shaanxi Biostar has any operations or plans to have any operations in the future other than acting as a holding company and management company for Aoxing Pharmaceutical and raising capital for its operations. However, we reserve the right to change our operating plans regarding Biostar and Shaanxi Biostar.

Our Business

We develop, manufacture and market pharmaceutical products in the PRC for a variety of diseases and conditions. Our most popular product is the Xin Ao Xing Oleanolic Acid Capsule, an over-the-counter ("OTC") medicine for chronic hepatitis B, a disease affecting approximately 10% of the Chinese population (Source: PRC Ministry of Health). Our current product line also includes five other OTC products, ten prescription-based pharmaceuticals, six nutriceuticals or health products and one medical device.

Our products are derived from medicinal herbs that are either grown at our own facility or purchased from our suppliers. We rely on approximately ten suppliers for our raw materials. For Fiscal 2012, we purchased most our raw

materials from suppliers because most of the herbs planted at our facility were not yet ready for harvest or use.

We devote substantial resources to the research and development of new products that must be approved by the regulatory agencies. We currently have eight products under development to complement our existing product line, one of which is currently awaiting approval from the China Military Food and Drug Administration of the PRC. We have adopted international manufacturing standards and currently hold one patent, with two additional patents pending approval. We are subject to extensive government regulation which is discussed in detail in the section below called "Government Regulation." In the event that a new product is not approved or it is found in violation of these laws and regulations, it could have a materially adverse effect on the prospects of our business operations.

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Our products are currently being sold in over 25 provinces in the PRC through 25 distributors and an established network of more than 400 dedicated sales people. In addition, we have been enhancing our marketing efforts with the launch of our internet-based China Hepatitis Internet Hospital (www.zggbyy.com, "CHIH") since June 2009. The multi-function website is designed to be a one-stop portal for HBV patients, providing current and relevant information on HBV and treatment options as well as a convenient method to purchase our HBV medicine. Registered users can secure a membership card for a fee of RMB 200 (approximately $25). Members are entitled to a 20% discount on diagnosis and medical services provided on CHIH, free expert diagnosis and free medicine delivery, and a wide range of inquiry, instruction and other complementary services. Registered users can also seek medical advice from a pool of HBV health professionals without having to go to the hospital. CHIH will facilitate our ability to provide customer service and add purchasing convenience for our consumers.

Our Products

The table below summarizes the pharmaceutical products that are currently manufactured and sold by us:

Name	Treatments	Benefits and Side Effects	SFDA Classification
XinAoxing Oleanolic Acid Capsule	Hepatitis B	Relieves hepatic injury, reduce glutamic-pyruvic transaminase activity, reduce r-GLO. Believed to promote hepatic cell regeneration, to be effective in hepatic coma treatment, to inhibit fibrous hyperplasia and prevent hepatocirrhosis. Used to reduce hepatic damage caused by HBV regeneration.	OTC
Ganwang Compound Paracetamol Capsule	Colds, runny nose, sore throat pain, headache and fever	Relieves the symptoms of the common cold, including runny nose, sniffles and sneezing. Some patients experience symptoms of anorexia, queasiness and upset stomach after use.	OTC
Tianqi Dysmenorrhea Capsule	Dysmenorrhea	Traditional Chinese medicine used for treatment of pain and other symptoms associated with menstruation. There are no known side effects.	OTC
Danshen Granule	Coronary heart disease, myocarditis and angina pectoris	Believed to stimulate circulation to end stasis, regulating the flow of qi (vital energy) to alleviate pain. There are no known side effects.	Prescription
Taohuasan Pediatric Medicine	Bronchial congestion and coughs	Used for the treatment for children's cough and respiratory tract infection. There are no known side effects.	Prescription
Hernia Belt	Hernia	Relieves hernia, no side effects	Medical Device
Tangning Capsule	Diabetes	Believed to treat type II diabetes	Nutrient, OTC
Yizi Capsule	Fertility	Believed to aid fertility and helps in fetal development during pregnancy	Nutrient, OTC
	Kidney	Believed to replenish kidney function	Nutrient, OTC

Shengjing Capsule			
Aoxing Ointment	Psoriasis, vitiligo and various dermatitis	Used to treat psoriasis, vitiligo and various dermatitis	Nutrient, OTC

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Jingang Tablets	For waist and knees, impotence, nocturnal emission, premature ejaculation, frequent urination	Warming Yang and tonifying kidney, strong gluten Zhuanggu	Prescription
Compound Paracetamol and Amantadine Hydrochloride Tablets	Colds, influenza	Used to alleviate the symptoms of fever, headache, aching limbs, sneezing, runny nose, stuffy nose, sore throat caused by common cold and influenza.	OTC
Danxiang Rhinitis Tablets	For chronic simple rhinitis, allergic rhinitis, acute and chronic sinusitis.	Anti-inflammatory heat, expelling wind and cold, analgesic Tongqiao.	Prescription
Deafness Tongqiao pills	For hepatobiliary Huosheng, head dazzling swelling, deafness and tinnitus, ear pus, dry stool , urine-yellow.	Heat purging fire, dampness purge.	OTC
Yanlixiao Capsules	For heat syndrome bacillary dysentery, acute tonsillitis, acute and chronic bronchitis, acute gastroenteritis, acute mastitis and other infectious diseases.	Clearing and detoxifying, anti-inflammatory.	Prescription
Piracetam Tablets		Adapt to acute and chronic cerebrovascular disease, traumatic brain injury, memory loss, mild and moderate brain dysfunction caused by multiple reasons of a variety of toxic encephalopathy. And also for children retarded mental development.	Prescription
Huangyangning Tablets	For the patients with the symptoms of chest stuffiness and pains, Knotted and intermittent	Help Qi and blood circulation; relieve pain	Prescription

	pulse; coronary heart disease, arrhythmias		
Hyperthyroidism Capsules	For the patients of hyperthyroidism with the symptoms of palpitations, sweating, irritability, dry throat, rapid pulse, and other symptoms of hyperthyroidism.	Pingganqianyang, Ruanjiansanjie.	Prescription

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Zhitong Tougu Plaster	Joint pain, swelling, tenderness or dysfunction.	Expelling wind and cold, blood stagnation line tongluo and relieving pain. For the patients of knee, lumbar blood stasis.	OTC
Fosfomycin Calcium Capsules		Oral.For the following infections caused by pathogen that is sensitive of fosfomycin pathogens: 1.Intestinal infections : bacterial enteritis , dysentery.2.Urinary tract infections: cystitis , pyelonephritis,urethritis.3.Dermatology and soft tissue infections : furunculosis , hidradenitis , lymphadenitis , folliculitis .4.Respiratory tract infection Nasopharyngitis , tonsillitis , bronchitis.5.Ophthalmology hordeolum , dacryocystitis.6.GynaeVaginitis, cervicitis.	Prescription
Qianlietong Capsules	For acute prostatitis, prostatic hyperplasia.	Qingrejiedu,Qinglishizhuo Liqihuoxue Anti-inflammatory and relieving pain.	Prescription
Wenweishu Capsules		For chronic gastritis, pain of epigastric cold.	OTC
Yituo Erythromycin particles		1.The alternative medicine for the patients who is sensitive to penicillin:2.Legionella 3.Mycoplasma pneumoniae pneumonia 4.genitourinary infection caused by Other chlamydia , mycoplasma. 6.Chlamydia trachomatis conjunctivitis.7.Oral infections caused by anaerobic bacteria.8.Campylobacter jejuni enteritis.9.Pertussis.10.Rheumatic fever recurrence, infective endocarditis.	Prescription
Chuzhang Zehaifu Tablets	For cataract.	Clear the abnormalities black bile and danyezhi chuzhang mingmu.	OTC

Xin Ao Xing Oleanolic Acid Capsule, also known as Ao Xing Liver Cure, is the only non-prescription drug currently being sold on the market for the sub-category of Oleanolic Acid that has been approved by the SFDA for the treatment of chronic hepatitis B virus ("HBV"), which is prevalent in the PRC. It is estimated that more than 130 million people are infected with HBV, or 10% of the population (some estimates are as high as 15% of the population) in the PRC. According to the World Health Organization, approximately about 1 million people die from hepatic failure, hepatocirrhosis and primary hepatoma caused by HBV infection per year; however, it was not until December 2, 2005, that the Chinese government first issued an HBV prevention manual for the general public. (Source: www.chinagan.com)

There are two kinds of medicine typically used for antivirotic treatment: interferon and ribonucleotide analog, both of which do not kill the HBV directly, but inhibit the metabolizing of HBV replication. Their side effects, however, include damage to normal healthy cells, and they require prolonged treatment periods of more than one year and high

costs. (Source: Pharmacopoeia of the People's Republic of China)

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Our Xin Ao Xing Oleanolic Acid Capsule is a pentacyclic triterpenoid which contains extracts from natural plants, Fructus Ligustri Lucidi and Hemsleya, and is the only SFDA-approved product to be manufactured as an OTC hepatitis B medicine in the PRC. It is also certified by the Chinese Medical Association as a specific product for hepatitis B treatment. Its pharmacological actions include the relief of hepatic injury, reduction of glutamic-pyruvic transaminase activity, promotion of hepatic cell regeneration, the inhibition of fibrous hyperplasia and prevention of hepatocirrhosis.

We estimate the demand for medicines treating hepatitis B amount to approximately $8 billion annually. We believe that we are well-positioned to become a leader in the sale of OTC medicines for the treatment of hepatitis B as our Xin Ao Xing Oleanolic Acid Capsule is the only oral OTC drug approved by the SFDA for such treatment. We continue to aggressively advertise this product and have started various promotion programs since 2011.

In addition, following our acquisition of Shaanxi Weinan, we added 86 additional drugs and one health product to our current line. The 86 drugs include 60 prescription and 26 OTC drugs. We continued manufacturing and marketing Shaanxi Weinan's existing products: Fosfomycin Calcium (prescription drug used to fight urinary tract infections), Huangyangning Tablets (prescription drug used for the treatment of cardiovascular disease), Zhitong Tougu Plaster Cream (OTC cream used as a pain reliever), Jiakangling Capsule (prescription drug used for the treatment of hyperthyroidism), Qianlietong Capsule (prescription drug used to diagnose benign prostatic hypertrophy), and Wenweishu Capsules (prescription drug used to treat chronic gastritis). We also started to manufacture and market a number of new products including: Compound Paracetamol and Amantadine Hydrochloride (OTC drug used to fight the common cold), Danshen Tablets (prescription drug used for the treatment of coronary heart disease), Piracetam Tablets (prescription drug used for the treatment of cerebrovascular disease), Erythromycin Estolate Coated Particles (prescription drug used as anti-bacterial anti-inflammatory).

Upon completion of the supplemental agreement with former equity holders of Shanxi Weinan, we acquired additional drug approval numbers, which cover 13 drugs including Jing Kong Tablet, Vitiligo Capsule, Danxiangrhinitis Tablets, Azithromycin Dispersible Tablet, Gynecological Leucorrhea Tablet, Chu Zhang Ze Haipu Tablets, Antideaf Otic Pill, Deafness Tongqiao Pills, Warm Palace Pregnant Son Pill, Peikun Pill, Four Square Stomach Capsule, Quick-Acting Anti-Inflammation Capsule, and Legalon Capsule.

Most of these drugs target widespread diseases and conditions affecting all ages, are sold in local pharmacies and hospitals in China, are included in the National Essential Medicines List and in most cases, are covered by personal health insurance.

Market for Our Products

Based on data that we have compiled from the business intelligence service DataMonitor, over the past decade, the Chinese medicine and pharmaceutical industry has developed at an annual growth rate of over 16%, making it one of the fastest growing industries in the Chinese economy. The PRC is among the ten largest medicine manufacturing countries and medical raw materials exporting countries in the world.

With approximately one-fifth of the world's population and a fast-growing gross domestic product, the PRC presents significant potential for the pharmaceutical industry. We believe that the burgeoning market provides many business opportunities for us. We are pursuing opportunities in several sectors that we believe will experience high growth and that we can address with our manufacturing and distribution expertise. The following is a brief overview of these potential sectors:

Hepatitis

We estimate that there are approximately 120 million hepatitis patients in the PRC. Currently, the most common way to establish an effective treatment protocol is through a doctor or hospital. As many patients have chronic HBV, ailments are prevalent and typically become more severe if not properly treated. However, HBV patients in the PRC also bear substantial psychological pressure, since it is very contagious. Infected patients are often fearful that their relatives, friends and coworkers will become aware of their circumstances and wind up soliciting treatment in secret, if at all. (Source: www.mdcn.com.cn) In addition to producing a medicine to treat HBV, we have launched CHIH, an internet portal designed to promote our product while providing HBV patients with current and relevant treatment information at the same time. We are positioning ourselves as a leader in HBV treatment.

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Coronary Disease

According to the World Heart Federation, cardiovascular disease is the leading cause of death in the developing world (with the exception of sub-Saharan Africa). Its rise is linked to the increase in prevalence of risk factors such as tobacco use and relative lack of access to interventions to managing the ensuing disease. In the PRC, annual direct costs are estimated at (euro) 30.76 billion or 4% percent of gross national income. The PRC is facing an increase in cardiac disease on two fronts. We believe that in urban and upscale areas, heart disease is on the rise as the prevailing lifestyles have appeared to result in higher incidents of stress, poorer nutrition, decreased physical activity and increase in tobacco use. Within the rural provinces, we believe that impoverishment is also contributing to the rise in coronary disease as most villages have no or limited access to medical help. Our Danshen Granule has been accepted as an effective product for the treatment of coronary heart disease, myocarditis and angina pectoris and we are marketing the product aggressively within the rural and urban markets.

Dysmenorrhe

There are an estimated 400 million "pre-menopausal" women in the PRC. (Source: www.women.org.cn) As the PRC continues to develop, the demand by women for products to treat their health concerns will continue to rise. We believe that our Tianqi Dysmenorrhea Capsule is positioned to take a leading role in this sector.

Influenza

Influenza is one of the most common recurring diseases in the PRC. It has been estimated that there is an annual market of $6.25 billion for flu-related healthcare in the PRC, 85% of which is in the form of OTC consumption (source: www.pharmatech.org.cn). Some of our pharmaceutical and nutrient products are designed to relieve symptoms associated with the flu.

The Rural Market

Modern medicine is not yet established in much of rural PRC. Frequently-occurring respiratory, digestive, and infectious diseases (such as hepatitis) often result in far more severe symptoms than would occur with proper treatment. Patients in remote areas are often lucky to be tended to by a technical school graduate at a village "clinic" with treatments passed down from generation to generation; professional doctors are few and far between. According to a Hai Tong Securities Industry Research report, median family incomes in many parts of western PRC are less than $100 per year, yet a day in the hospital can cost $25 and when medicines, procedures and other services are added this can exceed $50.

As the PRC government works to improve the overall health of its population, the rural markets represent a significant opportunity for growth. This sector has typically been neglected by the PRC's pharmaceutical and medicine industry, as there is minimal healthcare infrastructure or standardized health care service in much of rural PRC. As part of a strategy to improve rural healthcare, the PRC's central government has initiated and launched its "New Rural Medical Care Cooperative Program" since 2008, with the intention of achieving full coverage of all rural citizens by 2010. With an estimated 900 million rural farmers throughout the nation, the implementation of this program provides substantial opportunity for market expansion in this sector, where expenditures are estimated at nearly $5.6 billion in the 3 years ending 2011 - with 80% of that budget to be paid by the regional provincial governments in mid and western PRC. Of these rural markets the provinces of Shaanxi, Sichuan, Chongqing, Gansu, Henan, Hubei, and Hunan are expected to comprise 30% of the market, or $1.7 billion. (Source: China State Council Rules of Rural Cooperative Medical System). We believe that we are well established within the rural marketplace and have developed a targeted, aggressive sales and marketing campaign designed to expand our presence of all of our products in this sector.

Pediatric Medicine

Increased access to information through education programs and the general promotion of good health within the PRC are helping to generate demand for products designed specifically for children. Furthermore, as the PRC continues to advocate the one child per family policy, parents' demands for quality children's medicines are increasing, as is the interest in brand differentiation. However, at present, few manufacturing plants specialize in pediatric medicine and there is no leading national brand. Approximately 90% of general pharmaceuticals and medicines utilized in the PRC have no corresponding pediatric formula for their drugs, leaving substantial opportunity for growth. We plan to introduce new products to address these issues. In particular, we plan to enhance production of our pediatric medicines and market our pediatric cough medication.

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Respiratory Disease

With the aggravation of air pollution and worsening environmental conditions, the incidence of respiratory diseases remains high in the PRC. Influenza is one of the most common diseases in the PRC, and according to the Ministry of Health of the PRC, an estimated 75% of the population suffers from influenza every year and 5.5% suffer from tracheitis caused by influenza. This rate is more than 15% for senior citizens, who often suffer from influenza more than 3 times per year.

As is shown in the related statistics in the National Health Care Department in the PRC, the percentage of the population suffering from some form of respiratory diseases in the PRC is approximately 6.94%, or approximately 80,000,000 people suffering from respiratory diseases every year.

The four common respiratory diseases - acute nasopharyngitis, influenza, tonsillar tracheitis, and chronic bronchitis - account for 80% of the respiratory diseases in the PRC (Source: http://www.301hospital.com.cn/web/shownews/jbyf/655.html).

Our Taohuasan Pediatrics Medicine is used to treat respiratory disease in children.

Industry Consolidation

In 2003, the Chinese government issued “The Medicine Management Law”, “Pharmaceutical Manufacturing Quality Management Specifications” and implemented the Good Manufacturing Practices (“GMP”). This action has, and will continue to result in, industry consolidation as those companies without GMP certificates and without qualified facilities, capital or management expertise necessary to secure approval are forced to find strategic alternatives or cease operations.

Since 2003, the number of pharmaceutical companies in the PRC has decreased rather significantly, from 6,700 to approximately 3,600 (Source: Research and Markets, “China Pharmaceutical Industry Report (Merger and Reorganization)”). This trend has also resulted in significant opportunity for us, as we plan to identify companies that have similar products or other assets, but an inability to bring them to market.

Our Customers

Our top ten customers accounted for 42%, 36% and 37% of our total sales in Fiscal 2012, 2011 and 2010, respectively. One of our top ten customers accounted for more than 10% of our total sales in Fiscal 2012. Shanxi Huikang Pharmaceutical Co., Ltd. accounted for approximately 16.5% of our sales for the year ended December 31, 2012. No customer accounts for 10% or more of our total sales for Fiscal 2011 and 2010.

Competition

The pharmaceutical industry both within the PRC and globally is intensely competitive and is characterized by rapid and significant technological progress. Our competitors, both domestic and international, include large pharmaceutical companies, universities, and public and private research institutions that currently engage in or may engage in efforts related to the discovery and development of new pharmaceuticals. Many of these entities have substantially greater research and development capabilities and financial, scientific, manufacturing, marketing and sales resources than us, as well as more experience in research and development, clinical trials, regulatory matters, manufacturing, marketing and sales.

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The following table lists the primary competitors for each of our current product offerings as well as the nutrient products that we are licensed to produce:

Products	Competitors
Xin Ao Xing Oleanlic Acid Capsule	Wulanhaote Zhong Meng pharmaceutical Co., Ltd., Yang Ling Mai Di Sen Pharmaceutical Co., Ltd. and other suppliers of prescription medicines that are used for hepatitis treatment
Ganwang Compound Paracetamol & Amantadine Hydrochloride Capsule	Jiang Xi Ren He Pharmaceuticals, Inc. and Hainan Asia Pharmaceuticals, Inc.
Danshen Granule	Yun Nan Yong An Pharmaceuticals, Inc. and Hai Nan Min Hai Pharmaceuticals, Ltd.
Taohuasan Pediatric Medicine	Shandong Bai Cao Pharmaceuticals, Ltd., and Chang Chun Ren Min Pharmaceuticals, Ltd.
Tianqi Dysmenorrhea Capsule	Yun Nan Yu Xi City Wei He Pharmaceutical, Ltd., and Shandong Phoenix Pharmaceuticals, Ltd.
Nutrient Products	Wulanhaote Zhong Meng Pharmaceutical Co., Ltd.,Yang Ling Mai Di Sen Pharmaceutical Co., Ltd. and other traditional Chinese medicine suppliers

Of these companies, our three major competitors are Wulanhaote Zhong Meng Pharmaceutical Co., Ltd., Yang Ling Mai Di Sen Pharmaceutical Co., Ltd., and Inner Mongolia Ku Lun Pharmaceutical, Co., Ltd. because some of their products are sold in the same markets as ours. Additionally, only Shan Dong Phoenix Pharmaceutical Inc., Yun Nan Yu Xi Wei He Pharmaceutical, Ltd., Yang Ling Mai Di Sen Pharmaceutical Co., Ltd., and Yun Nan Yong An Pharmaceuticals, Co., Ltd. hold GMP certificates.

Sources and Availability of Raw Materials and Principal Suppliers

Our principal raw materials are the active ingredients for each of our products. We currently have the ability to source part of the Danshen raw materials internally, while the remaining part of the Danshan raw materials and other raw materials, as well as packaging materials, are sourced from various independent suppliers in the PRC.

Third party vendors are selected based on a number of factors, including quality, timely delivery, cost and technical capability. Management also conducts periodic onsite reviews of our suppliers' facilities. The vast majority of our raw material needs are readily available. We try to maintain relationships with at least two vendors for each major raw material in order to ensure a reliable supply at reasonable prices.

We rely on a number of suppliers for our raw materials and packaging materials. In Fiscal 2012, Xianyang Wenlin Color Printing Co., Ltd. ("Wenlin"), Xi'an Chinese Medicine and Herbs Factory ("Xi'an Chinese Medicine"), and Zhejiang Honghui Capsule Co., Ltd. ("Honghui") accounted for approximately 15%, 34% and 6% of our total raw material purchase, respectively. In Fiscal 2011, Wenlin, Xi'an Chinese Medicine and Honghui accounted for approximately 17%, 49% and 10% of our total raw material purchase, respectively. In Fiscal 2010, Wenlin, Xi'an Chinese Medicine and Xi'an Shengxing Chinese Medicine Factory accounted for approximately 19%, 41% and 12% of our total raw material purchase, respectively.

We have also been cultivating herbs since October 2008, including salvia miltiorrhiza, priclklyash peel, eucommia bark, gingko, honeysuckle, shizandra berry, scutellaeria baicalensis georgi, milk veteh and radix codonopsitis. Once

completed, we will be able to process these herbs into raw materials for our products. In Fiscal 2012, we started to harvest and use Danshen which accounted for 4.7% of the Danshen we use as raw material. We estimate there is an annual increase of 10% to 20% in production of Danshen in the coming years. Other herbs will be ready for harvest in three years. We will also be able to sell excesses on the market as raw materials.

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Intellectual Property

We rely on a combination of trademark, patent and trade secret protection laws in the PRC, as well as confidentiality procedures and contractual provisions to protect our intellectual property. We also require our employees to execute confidentiality and trade secret agreements.

We currently hold one patent for the production method of our Aoxing Ganbao product, with two additional patents pending approval, and 9 registered trademarks in the PRC, and own the rights to the internet domain names www.biostarpharmaceuticals.com and www.aoxing-group.com. Our patent, patent number ZL2007100180930, was approved on September 16, 2009, and is valid for twenty years.

Below is a list of our trademarks, all registered with Trademark Bureau of SAIC (State Administration of Industry and Commerce) by Aoxing Pharmaceutical.

Trade Mark	Term
“Yi Wen Ling” & device (Certificate: No. 1008816)	May 21, 2007 to May 20, 2017
“Zhong Ao” & device. (Certificate: No. 1728599)	March 14, 2012 to March 13, 2022
“Xin Tai Ke” & device (Certificate No. 1908333)	September 28, 2012 to September 27, 2022
“Gan Wang” & device, (Certificate No. 3001006)	November 14, 2012 to November 13, 2022
“Hei Gen” (Certificate: No. 3168882)	July 7, 2003 to July 6, 2013
“Shi Li Ming” (Certificate: No. 3180355)	August 7, 2003 to August 6, 2013
“Aoxing No.1” (Certificate: No. 3168883)	February 21, 2004 to February 20, 2014
“Cha Ge De ” & device (Certificate: No. 4770095)	December 21, 2008 to December 20, 2108
“Cha Ge De Ri” & device (Certificate: No. 1624463)	August 28, 2011 to August 27, 2021
“Ao Xing Xin Le” & device (Certificate: No. 4319027)	November 28, 2007 to November 27, 2017
“Yin Shi” & device (Certificate: No. 3650168)	November 21, 2005 to November 20, 2015
“Kangbinzhu” & device (Certificate: No. 3832841)	April 14, 2006 to April 13, 2016
“Shabinjun & device (Certificate: No. 3832844)	April 14, 2006 to April 13, 2016
“Kangbinzhu” & device (Certificate: No. 7858678)	January 14, 2011 to January 13, 2021
“Xinlao No.1” (Certificate: No. 3619525)	October 14, 2005 to October 13, 2015
“Baoertong” & device (Certificate: No. 3829856)	June 14, 2006 to June 13, 2016

Bio-pharmaceutical companies are at times involved in litigation based on allegations of infringement or other violations of intellectual property rights. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving and could involve substantial risks to us.

Government Regulation

The testing, approval, manufacturing, labeling, advertising and marketing, post-approval safety reporting, and export of our products are extensively regulated by governmental authorities in the PRC. We are also subject to the Drug Administration Law of the PRC, which governs the licensing, manufacturing, marketing and distribution of pharmaceutical products in the PRC and sets penalties for violations of the law. We are also subject to various other regulations and permit systems by the Chinese government. These regulations and their impact on our business are set forth in more detail below.

Drug Administration Law of the PRC was promulgated by the Standing Committee of National People's Congress on February 28, 2001 and effective as of December 1, 2001, and its implementing guidelines were promulgated by the State Council on August 4, 2004 and effective as of September 15, 2002. According to Drug Administration Law of the PRC and its implementing guidelines, a pharmaceutical manufacturer is required to obtain a Pharmaceutical Manufacturing Permit and Drug Approval Number for each manufactured drug from the relevant SFDA's provincial branch, which will be valid for five years and is renewable upon application before expiration. Accordingly, we are required to apply for these approvals and any extensions thereof for each of our products.

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Administration Regulations for Drug Registration was promulgated by the SFDA on July 10, 2007, and was effective as of October 1, 2007. The Administration Regulations for Drug Registration specifies the requirements and procedure for obtaining a Drug Approval Number for a new drug. It includes the requirements for clinical trial of new drugs, procedure for registering imported medicine and reporting and approval procedure for generic medicine. The Drug Approval Number is valid for five years and can be re-registered upon expiration. We are required to obtain a Drug Approval Number for each of our new drugs and reapply for an extension prior to the expiration date the drugs.

Good Manufacturing Practices (GMP) for Pharmaceutical Products, as revised in 1998 was promulgated by the SFDA on June 18, 1999 and became effective as of August 1, 1999, and the Authentication Regulations for Drug GMP was promulgated by the SFDA on September 7, 2005 and became effective on October 1, 2005. A pharmaceutical manufacturer must meet the GMP standards and obtain the GMP Certificate with a five-year validity period from SFDA. Before the GMP Certification expires, the pharmaceutical manufacturer must apply again and complete the relevant procedures, which may take about 120 working days, to obtain a new GMP Certificate. On October 24, 2007, the SFDA issued new guidelines for authentication standards of GMP, effective as of January 1, 2008. The new guideline may result in a rise of cost for a pharmaceutical manufacturer to meet the new standards in order to maintain the GMP qualification. If a pharmaceutical manufacturer fails to obtain or maintain GMP Certification and still carries on production of its drugs, it will be fined and its Pharmaceutical Manufacturing Permit may be revoked under serious circumstances. We are required to apply for a GMP certificate for each of our products and reapply prior to the expiration date and maintain our Pharmaceutical Manufacturing Permit.

Administration Regulations for Drug Call-back was promulgated by the SFDA on December 10, 2007 and effective on the same day. According to the Administration Regulations for Drug Call-back, the pharmaceutical manufacturer should establish a drug call-back system and collect information regarding the drug safety. If a manufacturer discovers any unreasonable danger of drug that threatens people's safety and health, it should immediately stop the manufacturing and sale of such drug, notify the distributors and report to the branch of the SFDA. This regulation also stipulates the procedures of drug call-back and danger valuation standards established and maintain a drug call back system in conformance the regulations.

Administration Regulations for Drug Instructions and Labels was promulgated by the SFDA on March 15, 2006 and was effective as of June 1, 2006. According to Administration Regulations for Drug Instructions and Labels, the contents of instructions and labels of each drug must be approved by the SFDA, and the smallest packing unit of drug shall be attached with instruction. We have developed, received approval and maintain drug labeling in conformance with the regulations for our existing products and must do so for new products.

Supervision Administration Regulations for Drug Distribution was promulgated by the SFDA on January 31, 2007 and effective as of May 1, 2007. According to Supervision Administration Regulations for Drug Distribution, a pharmaceutical

manufacturer can only sell drugs produced by itself, and it shall not sell drugs produced by other manufacturers or produced by itself but for commissioning manufacturing purposes. We do not resell drugs from any other pharmaceutical manufacturers.

Regulations for Drug Advertisement Censoring was promulgated by the SFDA and State Administration for Industry and Commerce (the "SAIC") on March 13, 2007 and effective as of May 1, 2007. The Standards for Drug Advertisement Censoring and Publication was promulgated by the SFDA and the SAIC on March 3, 2007 and made effective as of May 1, 2007. According to Regulations for Drug Advertisement Censoring, a pharmaceutical manufacturer must obtain a Drug Advertisement Approval Number from the provincial branch of the SFDA which is valid period of one year if the drug advertisement describes the functions or benefits of a drug. However, if an over the counter drug advertisement in any media, or a prescription drug advertisement in professional medical magazine, only refers to the name of the drug, including the general name and commercial name, without any other addition promotional information, the advertisement does not need to be censored or approved. We have obtained a Drug Advertisement Approval Number for all our drugs and review all of our OTC drug advertisements so that they are in conformance with the regulations relating to advertising these products.

Food Hygiene Law and Rules on Food Hygiene Certification mandates that a distributor of nutritional supplements and other food products must obtain a food hygiene certificate from relevant provincial or local health regulatory authorities. The grant of such certificate is subject to an inspection of the distributor's facilities, warehouses, hygienic environment, quality control systems, personnel and equipment. The food hygiene certificate is valid for four years, and the holder must apply for renewal of the certificate within six months prior to its expiration.

We have enjoyed a sound, cooperative working relationship with the Shaanxi People's Government and related government departments since our founding. Adjustments to our operating strategies and long-term business plans have been unanimously approved by relevant departments and by provincial-level government entities.

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The SFDA

The application and approval procedure in the PRC for a newly developed drug has numerous steps. For each new product, we prepare documentation covering pharmacological, toxicity, pharmacokinetics and drug metabolism studies in addition to providing samples of the drug. The documentation and samples are then submitted to the provincial SFDA. This process typically takes approximately three months. After the documentation and samples have been approved by the provincial SFDA, 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.

The SFDA and the China Traditional Medicine Administration Bureau regulate the process for new drug approval and licensing in the PRC, which can involve many levels of authority, lacking in transparency, and presents one of the greatest obstacles for companies to introduce new drugs into the market. One of the preliminary aspects of the application process involves a review of the Chinese market's need for a particular drug. If the SFDA determines that the market niche for a particular drug is saturated, the drug will not receive further consideration and the licensing application will be denied. According to industry analysts, eighty-five percent of applications for new drugs licensing is determined by SFDA to be in saturated markets and thus are not considered for approval. Only fifteen percent of new-to-market drug applications are considered for approval by the SFDA.

Furthermore, only companies that meet the GMP standard may apply for new drug approvals with the SFDA. The SFDA estimates that less than 20% out of the 6,000 pharmaceutical companies in the PRC currently meet the GMP standard.

We estimate that the cost to receive approval from the SFDA for a new product will range from RMB 1.1 million (approximately $174,000) to RMB 4.15 million (approximately $659,000).

Our receipt of a GMP certificate and approval by the SFDA of our prescription and OTC drugs represent a significant competitive advantage as these approvals present a significant barrier to entry by new companies hoping to enter the pharmaceutical drug industry.

Nevertheless, the new drugs we seek to bring to market are regulated by the SFDA and the China Traditional Medicine Administration Bureau and are estimated to now cost between RMB 1.1 million (approximately $174,000) to RMB 4.15 million (approximately $659,000) per product which must be provided through our cash flow or from financing activities as new products are introduced. In addition, our new products may not pass the clinical review and testing process which can negatively affect our cash flow and income.

We are subject to possible administrative and legal proceedings and actions by these various regulatory bodies. Such actions may include product recalls, seizures and other civil and criminal sanctions which could have a materially adverse effect on our prospects.

Environmental Regulation

Our operations and facilities are subject to environmental laws and regulations stipulated by the national and the local environment protection bureaus in the PRC. Relevant laws and regulations include provisions governing air emissions, water discharge and the management and disposal of hazardous substances and wastes. The PRC

regulatory authorities require pharmaceutical companies to carry out environmental impact studies before engaging in new construction projects to ensure that their production processes meet the required environmental standards.

We maintain controls at our production facilities to facilitate compliance with environmental rules and regulations. We are not aware of any investigations, prosecutions, disputes, claims or other proceedings in respect of environmental protection, nor have we been subject to any action by any environmental administration authorities of the PRC. To our knowledge, our operations meet or exceed the existing requirements of the PRC.

Advertising Laws

Advertisement Law of the People's Republic of China and Rules of Medicine Advertisements Management from State Admission for Industry and Commerce, Regulations on Control of Advertisements (tentative) from State Council provide guidelines for advertising prescription and OTC drugs and nutrients. The rules limit where advertisements may be placed and govern the claims that may be made by the manufacturer.

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Product Liability and Consumers Protection

Product liability claims may arise if the products sold have any harmful effect on the consumers. The injured party may make a claim for damages or compensation. The General Principles of the Civil Law of the PRC, which became effective in January 1987, state that manufacturers and sellers of defective products causing property damage or injury shall incur civil liabilities for such damage or injuries.

The Product Quality Law of the PRC was enacted in 1993 and amended in 2000 to strengthen the quality control of products and protect consumers' rights and interests. Under this law, manufacturers and distributors who produce or sell defective products may be subject to confiscation of earnings from such sales, revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

The Law of the PRC on the Protection of the Rights and Interests of Consumers was promulgated on October 31, 1993 and became effective on January 1, 1994 to protect consumers' rights when they purchase or use goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. In extreme situations, pharmaceutical product manufacturers and distributors may be subject to criminal liability if their goods or services lead to the death or injuries of customers or other third parties.

Circular 106

On May 31, 2007, China's State Administration of Foreign Exchange ("SAFE") issued an official notice known as "Circular 106", which requires the owners of any Chinese companies to obtain SAFE's approval before establishing any offshore holding company structure in so-called "round-trip" investment transactions for foreign financing as well as subsequent acquisition matters in China. Likewise, the "Provisions on Acquisition of Domestic Enterprises by Foreign Investors", issued jointly by Ministry of Commerce ("MOFCOM"), State-owned Assets Supervision and Administration Commission, State Taxation Bureau, State Administration for Industry and Commerce, China Securities Regulatory Commission and SAFE in September 2006, impose approval requirements from MOFCOM for "round-trip" investment transactions, including acquisitions in which equity was used as consideration.

Dividend Distribution

The principal laws, rules and regulations governing dividends paid by our PRC affiliated entities include the Company Law of the PRC (1993), as amended in 2006, Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, and Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001. Under these laws and regulations, each of our consolidated PRC entities, including wholly foreign owned enterprises, or WFOEs, and domestic companies in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our consolidated PRC entities, including WFOEs and domestic companies, is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its statutory surplus reserve fund until the accumulative amount of such reserve reaches 50% of its respective registered capital. These reserves are not distributable as cash dividends. As of December 31, 2012, the accumulated balance of our statutory reserve funds reserves amounted to RMB 51.3 million (approximately $6.7 million) and the accumulated profits of our consolidated PRC entities that were available for dividend distribution amounted to RMB 238.1 million (approximately $33.1 million).

Foreign Exchange Regulation

The ability of our PRC affiliated entities to make dividends and other payments to the Company may also be restricted by changes in applicable foreign exchange and other laws and regulations.

Foreign currency exchange regulation in the PRC is primarily governed by the following rules:

- Foreign Exchange Administration Rules (1996), as amended in August 2008, or the Exchange Rules;
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Currently, under the Administration Rules, Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of the PRC, unless the prior approval of the State Administration of Foreign Exchange (the "SAFE") is obtained and prior registration with the SAFE is made. Foreign-invested enterprises like Shaanxi Biostar that need foreign exchange for the distribution of profits to its shareholders may effect payment from their foreign exchange accounts or purchase and pay foreign exchange rates at the designated foreign exchange banks to their foreign shareholders by producing board resolutions for such profit distribution. Based on their needs, foreign-invested enterprises are permitted to open foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments of foreign exchange at certain designated foreign exchange banks.

Although the current Exchange Rules allow the convertibility of Chinese Renminbi into foreign currency for current account items, conversion of Chinese Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency conversion. The Company cannot be sure that it will be able to obtain all required conversion approvals for its operations or the Chinese regulatory authorities will not impose greater restrictions on the convertibility of Chinese Renminbi in the future. Currently, most of the Company's retained earnings are generated in Renminbi. Any future restrictions on currency exchanges may limit the Company's ability to use its retained earnings generated in Renminbi to make dividends or other payments in U.S. dollars or fund possible business activities outside China.

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Taxation

The PRC Enterprise Income Tax Law, or the EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law, "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would treat us as a PRC resident enterprise.

Under the EIT Law and implementation regulations, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC "resident enterprise," it is unclear whether dividends we pay with respect to our common shares, or the gain you may realize from the transfer of our common shares, would be treated as income derived from sources within the PRC and be subject to PRC income tax. It is also unclear whether, if we are considered a PRC "resident enterprise," holders of our common shares might be able to claim the benefit of income tax treaties entered into between China and other countries.

Price Controls

The retail prices of some pharmaceutical products sold in China, primarily those included in the national and provincial medical insurance catalogs and those pharmaceutical products whose production or distribution are deemed to constitute monopolies, are subject to price controls in the form of fixed prices (for non-profit medical institutions) or price ceilings. Manufacturers or distributors cannot freely set or change the retail price for any price-controlled product above the applicable price ceiling or deviate from the applicable fixed price imposed by the PRC government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the respective pharmaceutical companies, subject to notification to the provincial pricing authorities.

The retail prices of medicines that are subject to price controls are administered by the Price Control Office of the National Development and Reform Commission ("NDRC"), and provincial and regional price control authorities. The retail price, once set, also effectively determines the wholesale price of that medicine. From time to time, the NDRC publishes and updates a list of medicines that are subject to price control. Fixed prices and price ceilings on medicine are determined based on profit margins that the relevant government authorities deem reasonable, the type and quality of the medicine, its production costs, the prices of substitute medicine and the extent of the manufacturer's compliance with the applicable Good Manufacturing Practice ("GMP") standards. The NDRC directly regulates the pricing of a portion of the medicine on the list, and delegates to provincial and regional price control authorities the authority to regulate the pricing of the rest of the medicine on the list. Provincial and regional price control authorities have discretion to authorize price adjustments based on the local conditions and the level of local economic development. Currently, approximately 2,014 pharmaceutical products are subject to price controls. The price controls of all of those pharmaceutical products are administered by the NDRC.

Only the manufacturer of a medicine may apply for an increase in the retail price of the medicine, and it must either apply to the provincial price control authorities in the province where it is incorporated, if the medicine is provincially regulated, or to the NDRC, if the medicine is NDRC regulated. For a provincially regulated medicine, in cases where provincial price control authorities approve an application, manufacturers must file the newly approved price with the NDRC for record and thereafter the newly approved price will become binding and enforceable across China.

Since May 1998, the PRC government has been ordering reductions in the retail prices of various pharmaceutical products. The latest price reduction occurred in October 2008. As of December 31, 2011, only one of our pharmaceutical products was subject to price controls. Price controls, however, have had no significant impact on our operations as our price points have historically been substantially below such government-imposed ceilings.

The NDRC may grant premium pricing status to certain pharmaceutical products that are under price control. The NDRC may set the retail prices of pharmaceutical products that have obtained premium pricing status at a level that is significantly higher than comparable products.

Research and Development

We currently have seven potential products in the research and development pipeline. Identified compounds are currently being tested for indications related to neoplastic disease, central nervous system disease, an anti-infection medicine, kidney tonifying medicine and sterility. We anticipate we will be able to introduce three to five new products to market each year.

In addition to the work being done in our in-house research department, we are working with prestigious Chinese universities and research institutes in the PRC to develop effective, high margin products. Specifically:

Starting from 2006, Aoxing Pharmaceutical entered into a technological cooperation agreement with Shaanxi University of Science and Technology (“Shaanxi University”) under which Shaanxi University agreed to provide interns to assist with our product development for payment from us of RMB 600 per month to the interns. Additionally, Shaanxi University agreed to provide advisory educational services to improve our pharmaceutical production techniques. We are authorized to use the education material in our production process but do not own the educational materials. Shaanxi University also agreed to assist us in developing improved production techniques for new drugs, the ownership of which shall be held by Aoxing Pharmaceutical. The fees to be paid to Shaanxi University for new drug development will be made under a separate agreement, although there is currently no funding requirement.

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Starting from 2006, Aoxing Pharmaceuticals entered into a technological cooperation agreement with the College of Life Sciences of Northwest University ("Northwest University"), pursuant to which we agreed to make our facilities available for practical studies for interns from Northwest University. In return, Northwest University agreed to assign its personnel to teach our staff various agricultural sciences associated with growing plants and herbs used in traditional Chinese medicines ("TCM"). We are authorized to use the education material in our production process but do not own the educational materials. In addition, the parties agreed to cooperate on the development of new TCM, the ownership of which will be held by us. The fees to be paid Northwest University for new drug development were made under a separate agreement, although we have currently not entered into any such agreement.

On January 5, 2007, Aoxing Pharmaceutical entered into a cooperation agreement with Xianyang Material Medical Institute ("Xianyang Institute") for the development of a new drug called Zenbaowan Capsule. Under the agreement, Xianyang Institute is responsible for the research and development of the new drug in compliance with the PRC Drug Administration Law and the Administration Regulations for Drug Registration, as well as the SFDA application process for, the new drug. In addition, the parties agreed to long term technical cooperation on products mutually identified in the future under the terms of separate agreements. Any product developed by Xianyang Institute under this agreement, and the intellectual property rights related thereto, will be owned by us. We agreed to pre-pay all application expenses and to pay Xianyang Institute the aggregate consideration of RMB 180,000 (approximately $24,290), of which 50% will be paid on the first day that Zenbaowan Capsule passes the first materials and production site examinations by the SFDA, and 50% upon accreditation and receipt of the drug approval number from the SFDA. The agreement can be terminated by either party without notice. No payments have been made to date.

On December 15, 2010, Aoxing Pharmaceutical entered into a product research and development agreement with Northwest University to jointly conduct the research, development and production of a medicine, Danshensu Borneol Ester ("DBZ"), for treatment of ischemic cerebrovascular disease. Pursuant to the agreement, Aoxing shall acquire a 60% equity interest in DBZ and shall be entitled to 60% of the after-tax profits after the product is put into production. Aoxing shall have the exclusive right to produce and sell the product in China and own the exclusive approval number. Northwest University shall not transfer the product to any third party in China. In consideration, Aoxing shall pay Northwest University an aggregate of RMB 72 million (approximately $11.5 million) for the research, development and approval of the product, payable in four installments. The first payment of RMB 15 million as deposit shall be paid within twenty business days after execution of this agreement; the second installment of RMB 20 million shall be prior to January 15, 2012 for the first and second phase clinical research; the third installment of RMB20 million shall be paid prior to January 15, 2013 for the third and fourth clinical research and the last installment of RMB 17 million shall be paid prior to January 15, 2013 for product approval. As of the date of this annual report, we have paid an aggregate of RMB 55 million (approximately $8.8 million) to Northwest University in connection with the agreement.

We spent approximately $36,000, $2,324,000 and $4,476,000 in fiscal years of 2010, 2011 and 2012, respectively, for research and development. We anticipate spending approximately $3.5 million for research and development in fiscal year 2013.

Employees

As of April 12, 2013, we had a total of about 439 full time employees who receive labor insurance. These employees are organized into a union under the labor laws of the PRC and can bargain collectively with us. We maintain good relations with our employees.

We are required to contribute a portion of our employees' total salaries to the Chinese government's social insurance funds, including medical insurance, unemployment insurance and birth insurance and to purchase job injury insurance for employees, in accordance with relevant regulations. The government's social insurance funds account for 20% of

employees' total salaries. The job injury insurance premium is about RMB 50 (approximately $7) per person. We expect the amount of our contributions to the government's social insurance funds and the cost related to job injury insurance to increase in the future as we expand our workforce and operations.

Seasonality of Sales

Sales in the first quarter are usually lower due to people traveling and taking vacations during the traditional Chinese New Year and Chinese Spring Festival holidays. Sales in the fourth quarter are usually the highest among quarters. Sales in the first and fourth quarters of fiscal 2010 approximately 15% and 35% of total sales for those period, respectively; approximately 17% and 28% for those periods in fiscal 2011, respectively and approximately 33 % and 32% for those periods in fiscal 2012, respectively. This reflects the seasonal nature of our sales.

ITEM 1A. RISK FACTORS

Not applicable.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. DESCRIPTION OF PROPERTY

The table below provides a general description of our major offices and facilities:

Location	Principal Activities	Area(Sq meter)	LUR and Lease Term
No. 588 Shiji Xi Road, Xianyang, Shaanxi Province, PRC 712000	Headquarter, GMP Facility, R&D	19,036	50-year land use right expiring in June 2056
Wuquan Village Jiangcun Town Hu Country Xi'an City	Herb cultivation	343,983	40-year land lease expiring on May 4, 2049
Weihua Road, Weinan City, Shaanxi, PRC	GMP Facility, R&D	63,851	50-year land use right expiring in August 2053

All land in the PRC is owned by the government and cannot be sold to any individual or entity. Instead, the government grants landholders a land use right in exchange for a purchase price for such right. The land use right allows its holder the right to use the land for a specified long-term period of time and enjoys all the incidents of ownership of the land.

The land use right for the site of our headquarters was acquired in 2006, including land confiscation fee, settlement compensation, ground structure compensation, city construction fitting fee, land reclamation fee, agriculture land fund, water construction fund, agricultural tax, land use fee, and land leasing fee. No additional payment will be needed to retain this right.

During the 4th quarter of 2011, following the protracted negotiations with the local government of Zouan Town, Xi'an City, the Company determined to give up the land use right for the construction of raw materials processing plant in Zouan Town. The land use right for the 34,803 square meter facility was acquired in 2009 in consideration for RMB 20 million (approximately $3.1 million). The Company's determination was preceded by ongoing attempts to resolve a labor dispute with the local government relating to a previous paper mill labor force on this site to be retained by the Company following its acquisition of the property and business, which attempts yielded no positive results. In March 2012, the Company reached an agreement with the local government whereby the government will refund part of the consideration paid for the land (RMB 12.5 million, approximately $1.9 million). The foregoing refund was recorded as "Other Receivable" in the fiscal year 2011. During the year ended December 31, 2012, the Company has received amounts totaling approximately $1.77 million.

In December 2011, Xianyang Land Reserve Center, the governmental entity that holds the title to all land in the Shaanxi Province, reclaimed approximately a 33,228 square meter portion of the real estate (with carrying amount of RMB 28.5 million or approximately $4.5 million) at our Xianyang, Shaanxi Province headquarters, none of which have been used by our Company. We leased all 52,264 square meters of real estate in Xianyang under 50-year land use right expiring in June 2056. At the time of the lease commencement in 2006, all of the land was designated for industrial use; however, in 2011, the local Municipal Construction Planning Department repurposed a portion of the real estate for residential use. The Company has reached an agreement with the local government, whereby the Company will be reimbursed RMB 24.8 million (approximately $3.9 million) for the reclaimed portion of its building and land use right. As a result of the foregoing, the Company recorded approximately $3.9 million as Other

Receivable, and recognized an impairment loss of approximately $0.6 million in Fiscal 2011. As at December 31, 2012, these amounts were still outstanding.

The land right for our cultivation site was acquired in 2009 for a total of RMB 8 million ($1.2 million).

The land use right of Weinan site was acquired in October 2011 when we made the acquisition of Shaanxi Weinan Huaren Pharmaceuticals, Ltd. at that time.

ITEM 3. LEGAL PROCEEDINGS

The Company may, from time to time, be involved in various legal matters arising out of its operations in the normal cause of business, none of which are expected, individually or in the aggregate, to have a material effect on the Company.

ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The Company's securities are currently trading on NASDAQ under the trading symbol "BSPM" (subject to the listing exception), which listing was approved in April 2010. Prior to that, our securities were quoted on the OTC BB. The market for our common stock is limited and volatile. Set forth below are the high and low closing sale prices for the common stock for each quarter in 2012 and 2011. The quotations reflect inter-dealer prices, without retail markup, markdown, or commissions, and may not represent actual transactions.

Quarter Ended	High	Low
December 31, 2011	$ 2.73	$ 1.53
September 30, 2011	$ 4.23	$ 2.04
June 30, 2011	$ 6.09	$ 3.20
March 31, 2011	$ 8.19	$ 5.52
December 31, 2012	$ 1.38	$ 0.95
September 30, 2012	$ 1.41	$ 1.17
June 30, 2012	$ 1.86	$ 1.06
March 31, 2012	$ 3.15	$ 1.86

On April 12, 2013, the closing price of the Company's common stock was $0.99.

Holders

As of April 12, 2013, we had 50 record holders of our common stock based upon a shareholder list provided by our transfer agent. Our transfer agent is Interwest Transfer Co., Inc. located at 1981 Murray Holladay Road, Suite 100, Salt Lake City, UT 84117, and their telephone number is 1-801-272-9294.

Dividends

We have not declared or paid any cash dividends on our common stock during either of our last two fiscal years. The payment of dividends, if any, is at the discretion of the Board of Directors and is contingent on the Company's revenue and earnings, capital requirements, financial conditions. We currently intend to retain all earnings, if any, for use in business operations. Accordingly, we do not anticipate declaring any dividends in the near future.

Securities Authorized for Issuance under Equity Compensation Plans

Please see the discussion in ITEM 12 titled "Equity Compensation Plan Information" below.

The Company issued no unregistered shares of Common stock during the three months ended December 31, 2012. The Company did not repurchase any of its equity securities during the quarter ended December 31, 2012.

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ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. 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 audited financial statements, and the "Risk Factors" section in our filings we make with the SEC. 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 RMB7.85 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 RMB 61 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. We are in the process of integrating the administration, operation and sales functions of Shaanxi Weinan with those of Aoxing Pharmaceutical.

We currently manufacture and sell six over-the-counter ("OTC") medicines, ten prescription-based pharmaceuticals, six health products, and one medical device which are sold and distributed in over 25 provinces and provincial-level cities

throughout China. We also have exclusive supply contract with a hospital to supply three pharmaceutical products. 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.

Recent Developments

On March 11, 2013, Aoxing Pharmaceutical entered into a supplemental agreement to the Share Transfer Agreement with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Share Transfer Agreement due to incomplete reregistration. Following the execution of the supplemental agreement, the Company will acquire the ownership of the 13 drug approval numbers for which reregistration has been completed. The aggregate purchase price is RMB 66 million (approximately $10.6 million) for the 13 drug approval numbers, of which RMB 30 million (approximately $4.8 million) was paid on November 26, 2012, RMB 25 million (approximately $4.0 million) was paid on December 31, 2012 and the balance of RMB 11 million (approximately $1.8 million) shall be paid in the Company's common stock. Based on an agreed issuance price of $1.10 per share, RMB 11 million is equivalent to 1,602,564 shares of common stock of the Company. The Company completed this acquisition in April 2013.

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Reverse Common Stock Split

On April 3, 2012, the Company effected a one-for-three reverse stock split of the issued and outstanding common stock of the Company (the "Reserve Split"). 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. Holders of the Company's common stock are deemed to hold one whole, post-split share of the Company's common stock for every three whole, pre-split shares of the Company's issued and outstanding common stock. Fractional share holdings are rounded up to the nearest whole number. At the market opening on April 4, 2012, the Company's common stock began trading on The NASDAQ Stock Market on a post-split adjusted basis. The Company's common stock continues to trade under the symbol "BSPM,", but is assigned a new CUSIP number.

Gel Capsule Related Developments (the "Capsule Incident") and Effects on the Company's Financial Position

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 were similarly adversely affected.

As a result of the sales suspension of our capsule products, which accounted for 88.3% of our total sales in the year ended 2011, from April through July of 2012, and the negative publicity generated by the incident, we have experienced a decrease of 63.2% or $51.3 million of our total capsules sales. Net sales of our capsule was $30.0 million during the year ended 2012, as compared to approximately $81.2 million. Management has estimated that gross profit lost as a result of the incident amounts to approximately $34.5 million, after eliminating the effect of

changes in sale price and cost of goods sold. In addition, the Company paid an administrative penalty to the SFDA of approximately $1.6 million and compensations to our customers totaling approximately $8.0 million. We also experienced a delay in the settlement of our account receivables as our customers were unable to resell our capsule products to consumers. Average accounts receivables turnover increased to 205 days for the years ended December 31, 2012 from 108 days for the year ended December 31, 2011. Accordingly, we recognized an impairment to our account receivables totaling $3.5 million. Total measurable financial impact to the Company was estimated at a minimum of approximately $47.6 million.

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.

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Results of Operations

Net Sales

The following table illustrates our sales results for the years ended December 31, 2012 and 2011.

	Year Ended December 31,					
	2012			2011		
	Sales	% of total sales		Sales	% of total sales	
Aoxing Pharmaceutical drugs and health products (capsule)						
Xin Aoxing Oleanolic Acid Capsule	$23,361,384	47.4	%	$60,483,422	65.8	%
Ganwang Compund Paracetamol Capsule	2,256,119	4.6	%	6,585,804	7.2	%
Tianqi Dysmenorrhea Capsule	2,534,147	5.1	%	6,543,902	7.1	%
Tangning Capsule	480,678	1.0	%	2,104,229	2.3	%
Yizi Capsule	964,714	2.0	%	4,527,489	4.9	%
Shengjing Capsule	297,918	0.6	%	950,256	1.0	%
Subtotal	29,894,960	60.6	%	81,195,102	88.3	%
Aoxing Pharmaceutical drugs and health products (non-capsule)						
Danshen Granule	4,131,009	8.4	%	4,140,322	4.5	%
Taohuasan Pediatrics Medicine	4,138,307	8.4	%	5,453,031	5.9	%
Aoxing Ointment	134,063	0.3	%	309,866	0.3	%
Subtotal	8,403,379	17.0	%	9,903,219	10.8	%
Shaanxi Weinan products (existing since 4th quarter 2011)						
Zhitong Tougu Plaster	1,352,454	2.7	%	518,256	0.6	%
Jiakangling Capsule	1,160,549	2.4	%	39,329	0.0	%
Qianlietong Capsule	809,947	1.6	%	98,886	0.1	%
Huangyangning Tablet	1,058,531	2.1	%	50,535	0.1	%
Fosfomycin Calcium Capsule	829,727	1.7	%	41,644	0.0	%
Wenweishu Capsule	955,817	1.9	%	22,687	0.0	%
Erythromycin Estolate Granule	169,598	0.3	%	15,462	0.0	%
Chuzhangze Haifu Tablet	1,092,168	2.2	%	47,513	0.1	%
Subtotal	7,428,791	15.1	%	834,312	0.9	%
Medical device						
Hernia belt	22,920	0.0	%	30,806	0.0	%
Shaanxi Weinan products (new)						
Compound Paracetamol Tablet	120,901	0.2	%	-	0.0	%
Piracetam Tablet	1,300	0.0	%	-	0.0	%
Jin'gang Tablet	292,215	0.6	%	-	0.0	%
Danxiang Rhinitis Tablet	135,417	0.3	%	-	0.0	%
Erlong Tongqiao Pill	48,154	0.1	%	-	0.0	%
Yanlixiao Capsule	89,782	0.2	%	-	0.0	%
Subtotal	687,769	1.4	%	-	0.0	%

Hospital products (new)						
Pharyngitis Granule	1,359,543	2.8	%	-	0.0	%
Gastritis Granule	523,093	1.1	%	-	0.0	%
Nasosinusitis Granule	997,389	2.0	%	-	0.0	%
Subtotal	2,880,025	5.8	%	-	0.0	%
Shaanxi Weinan products (discontinued)						
Huaren Changweitong Capsule	-	0.0	%	2,066	0.0	%
Total Sales	$49,317,844	100.0	%	$91,965,505	100.0	%

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For the year ended December 31, 2012, total net sales decreased by approximately $42.6 million or 46.4% compared to the year of 2011. As discussed above sales of Aoxing Pharmaceutical's capsule products were affected by the suspension of sale and negative publicity associated with the Capsule Incident. Net sales of our capsule products decreased by approximately $51.3 million or 63.2%. The sales of other Aoxing Pharmaceutical products were also affected by the negative publicity. Net sales of these products decreased by approximately $1.5 million or 15.1%.

We acquired Shaanxi Weinan in the fourth quarter in 2011, and continued the sales of Weinan's then existing products. These products accounted for approximately $7.4 million or 15.1% of our total net sales in 2012. We discontinued one product due to low sales volume and demand. During 2012, we have reintroduced six of Weinan's products, which accounted for approximately $0.7 million or 1.4% of our total net sales in 2012.

In 2012, we have also begun sales of three new products that were sold exclusively at a local hospital. These products accounted for approximately $2.9 million or 5.8% of our total net sales in 2012.

As a result of the Capsule Incident, we expect the future sale of our capsule products, including the Xin Aoxing Oleanolic Acid Capsule, our flagship product, will continue to be negatively affected. We have been taking a number of steps to restart sales of gel capsule drugs immediately following the SFDA approval. We expect the revenue from our capsule products to gradually improve.

Cost of sales

Compared to the fiscal year of 2011, cost of sales decreased by about $8.1 million or 29.4% for the year ended December 31, 2012. This decrease is mainly due to the decrease in net sales. The following table summarizes our cost of goods sold for the years ended December 31, 2012 and 2011:

	Year Ended December 31,					
	2012			2011		
	Cost of sales	% of product sales		Cost of sales	% of product sales	
Aoxing Pharmaceutical drugs and health products (capsule)						
Xin Aoxing Oleanolic Acid Capsule	$4,452,466	19.1	%	$10,188,505	16.8	%
Ganwang Compund Paracetamol Capsule	1,219,631	54.1	%	3,494,768	53.1	%
Tianqi Dysmenorrhea Capsule	1,514,470	59.8	%	3,633,933	55.5	%
Tangning Capsule	154,167	32.1	%	673,504	32.0	%
Yizi Capsule	370,271	38.4	%	1,733,519	38.3	%
Shengjing Capsule	232,476	78.0	%	740,039	77.9	%
Subtotal	7,943,481	26.6	%	20,464,268	25.2	%
Aoxing Pharmaceutical drugs and health products (non-capsule)						
Danshen Granule	3,731,595	90.3	%	3,510,363	84.8	%
Taohuasan Pediatrics Medicine	1,952,045	47.2	%	3,071,577	56.3	%
Aoxing Ointment	92,491	69.0	%	209,246	67.5	%
Subtotal	5,776,131	68.7	%	6,791,186	68.6	%
Shaanxi Weinan products (existing since 4th quarter 2011)	3,325,548	44.8	%	298,068	35.7	%

Medical device	15,786	68.9	%	23,898	77.6	%
Shaanxi Weinan products (new)	326,493	47.5	%	-	-	
Hospital products (new)	2,079,382	72.2	%	-	-	
Shaanxi Weinan products (discontinued)	-	-		1,021	49.4	%
Total cost of sales	$19,466,821	39.5	%	$27,578,441	30.0	%

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As illustrated above, our overall cost of sales in 2012 was 39.5% of net sales, as compared with 30.0% for 2011. Cost of sales to sales ratio ("cost margin") of Aoxing Pharmaceutical capsule products increased slightly, from 25.2% to 26.6%, which is attributable to products recall, and a 5.6% increase in the cost of capsules. Cost margin of Aoxing Pharmaceutical's non-capsule products remain relatively unchanged.

Cost margin of Shaanxi Weinan's existing product was 44.8% in 2012, as compared to 35.7% in 2011. We have lowered the selling price of these products in order to generate higher sales volume. The increase in cost margin is consistent with the change in pricing strategy. Cost margin of Shaanxi Weinan's new products were 47.5%. As we have recently introduced these products, we are still determining our pricing and sales strategy for these products.

Our new hospital products' cost margin was 72.2%. Management believes that we may lower the average cost of these products as we increase our sales and utilize economy of scale.

Gross Profit

Gross profit decreased by approximately $34.5 million or 53.6% for the year ended December 31, 2012, as compared to the year of 2011. The decrease in gross profit was due primarily to the decrease in sales volume. As discussed above, the suspension of sales of our capsule products and the negative publicity associated with the Capsule Incident contributed to an estimated $34.5 million loss in gross profit (after eliminating effect of changes in price and costs of sales).

	Year Ended December 31,					
	2012			2011		
	Gross Profit	Product Gross Margin %	% of Total Gross Profit	Gross Profit	Product Gross Margin %	% of Total Gross Profit
Aoxing Pharmaceutical drugs and health products (capsule)						
Xin Aoxing Oleanolic Acid Capsule	$18,908,918	80.9 %	63.3 %	$50,294,917	83.2 %	78.1 %
Ganwang Compund Paracetamol Capsule	1,036,488	45.9 %	3.5 %	3,091,036	46.9 %	4.8 %
Tianqi Dysmenorrhea Capsule	1,019,677	40.2 %	3.4 %	2,909,969	44.5 %	4.5 %
Tangning Capsule	326,511	67.9 %	1.1 %	1,430,725	68.0 %	2.2 %
Yizi Capsule	594,443	61.6 %	2.0 %	2,793,970	61.7 %	4.3 %
Shengjing Capsule	65,442	22.0 %	0.2 %	210,217	22.1 %	0.3 %
Subtotal	21,951,479	73.4 %	73.5 %	60,730,834	74.8 %	94.3 %
Aoxing Pharmaceutical						

drugs and health products (non-capsule)										
Danshen Granule	399,414	9.7	%	1.3	%	629,959	15.2	%	1.0	%
Taohuasan Pediatrics Medicine	2,186,262	52.8	%	7.3	%	2,381,454	43.7	%	3.7	%
Aoxing Ointment	41,572	31.0	%	0.1	%	100,620	32.5	%	0.2	%
Subtotal	2,627,248	31.3	%	8.8	%	3,112,033	31.4	%	4.8	%
Shaanxi Weinan products (existing since 4th quarter 2011)	4,103,243	55.2	%	13.7	%	536,244	64.3	%	0.8	%
Medical device	7,134	31.1	%	0.0	%	6,908	22.4	%	0.0	%
Shaanxi Weinan products (new)	361,276	52.5	%	1.2	%	-				
Hospital products (new)	800,643	27.8	%	2.7	%	-				
Shaanxi Weinan products (discontinued)	-					1,045				
Total gross profit	$29,851,023	60.5	%	100.0	%	$64,387,064	70.0	%	100.0	%

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The overall gross profit margin decreased to 60.5% for the fiscal year of 2012 from 70.0% for 2011 mainly because of the increase in the cost of labour and raw material for the year ended December 31, 2012. The decrease is also due to significant change in the sales of our products mix. Xin Aoxing Oleanolic Acid Capsule, our highest gross profit margin product (2012: 80.9%; 2011: 83.2%), contributed 63% to total gross profit in 2012, as compared to 78% in 2011.

Operating Expenses

	Year Ended December 31,							
	2012			2011				
	Operating expenses	% of net sales		Operating expenses	% of net sales		% change	
Advertising expenses	$14,154,879	28.7	%	$21,234,426	23.1	%	(33.3	%)
Selling expenses	13,734,910	27.8	%	16,992,936	18.5	%	(19.2	%)
General and administrative expenses	5,951,322	12.1	%	5,676,652	6.2	%	4.8	%
Provision for doubtful account	3,674,905	7.5	%	-	-		100.0	%
Compensation paid	8,044,249	16.3	%	-	-		100.0	%
Administrative penalty	1,601,012	3.2	%	-	-		100.0	%
Research and development expenses	4,475,806	9.1	%	2,323,996	2.5	%	92.6	%
Total operating expenses	$51,637,083	104.7	%	$46,228,010	50.3	%	11.7	%

Total operating expense increased by approximately $5.4 million or 11.7% for the fiscal year of 2012, as compared to 2011. The increase is attributable to an administrative penalty imposed by the SFDA and compensation paid to our customers in connection with the Capsule Incident, increase in research and development expense and increase in provision for doubtful account.

Advertising expenses accounted for 28.7% and 23.1% of our total net sales for the years ended December 31, 2012 and 2011, respectively. The overall decrease of approximately $7.1 million or 33.3% is consistent with the temporary suspension of our sales of capsule products. We incurred less advertising expenses from April to July of 2012 when the sales of our capsule products were suspended by the SFDA. We increased our advertising activities when the sales of these products resumed in August, 2012.

Selling expenses consist mostly of sales salaries, commission and other selling expenses. Overall decrease was approximately $3.3 million or 19.2%. The decrease is consistent with the decrease in our sales in 2012.

General and administrative expenses consist of salaries and wages, amortization and depreciation, stock based compensation and other general and administrative expenses. There was an overall increase of approximately $0.27 million or 4.8%. Salaries and wages increased as we acquired more employees as a result of the acquisition of Shaanxi Weinan in October 2011. Amortization and depreciation increased as we acquired more property and equipment and intangibles as a result of the acquisition of Shaanxi Weinan in October 2011. Stock based compensation expenses were approximately $0.8 million and $1.7 million for the years ended December 31, 2012 and 2011, respectively. Other general and administrative expenses increased slightly as we expanded more resources in dealing with the SFDA concerning our product safety.

Provision for doubtful accounts was approximately $3.7 million for the year ended December 31, 2012. There was no provision for doubtful accounts for the year ended December 31, 2011, as most of our account receivables were received during our normal credit period of 90 days. As a result of the suspension of our capsule sales from May to

August 2012, our customers were unable to resell our products to consumers. Consequently, our customers delayed in settling our account receivables. Average account receivables turnover increased to 205 days for the year ended December 31, 2012, from 108 days for the year ended December 31, 2011. In light of this delay, management decided to increase our allowance for doubtful accounts to approximately $3.6 million in as at December 31, 2012 from approximately $0.1 million as at December 31, 2011.

In connection with the Capsule Incident that led to the suspension of our capsule sales, we were imposed a onetime, non-appealable administrative penalty of approximately $1.6 million by the SFDA. We also paid a total of approximately $8.0 million as compensation to our customer in connection with the Capsule Incident. Most of our customers are retail pharmacies, and were unable to resell our products to consumers as a result of the sales suspension. We compensated these customers with approximately $6.7 million in cash and approximately $1.3 million as credits to accounts receivables, for their cost of holding our products in their warehouse, and portions of their lost profits, during the sales suspension.

We make periodical assessments as to the progress of our research and development projects, and charge to expense as appropriate, as these projects reach different stages or project milestones. We incurred a total of approximately $4.5 million and $2.3 million in research and development expenses for the years ended December 31, 2012 and 2011, respectively. The increase was approximately $2.2 million or 92.6%. Our current research developments are in connection with three ongoing clinical trials for two new products and one existing products, and a joint development of a new drug with a research institution.

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Provision for Income Taxes

For the year ended December 31, 2012, we had an income tax recovery of approximately $1.6 million, which is due to our operating loss during the year. For the year ended December 31, 2011, our provision for income taxes was approximately $5.8 million. The effective tax rates, taking into consideration differences in allowable deductions, and changes in valuation allowances, were Nil and 33%, for the years ended December 31, 2012 and 2011 respectively. The uniform corporate income tax rate is 25% in China. The calculation of effective tax rate include the operating results of all our subsidiaries, including the U.S. corporate company. As a result of our net operating loss during the year ended December 31, 2012, which may be used to offset future net operating income, we have recorded a deferred tax asset of approximately $3.7 million.

Liquidity and Capital Resources

As of December 31, 2012, we had cash and cash equivalents of approximately $1.8 million and net working capital of approximately $29.3 million. We expect to generate sufficient cash and cash equivalents from the realization of our accounts receivables. We suffered a delay in the receipt of our accounts receivables as a result of the Capsule Incident; however, the situation has improved recently as we expanded more resources on collection of accounts receivables. For the interim period ended March 31, 2013, cash generated from realization of accounts receivables was approximately $11.5 million. We anticipate that more of our accounts receivables totaling approximately $21.8 million, as at December 31, 2012, will be received in the second quarter of 2013. We believe our existing cash and cash equivalents and net working capital as at December 31, 2012, as well as net cash inflows during the first and second quarters in 2013 will be sufficient to maintain our operations at present level for at least the next twelve months.

As at December 31, 2012, cash and cash equivalents were mainly denominated in RMB and were deposited with banks in the PRC. These cash and cash equivalents may not be freely convertible into foreign currencies and the remittance of these funds out of the PRC may be subjected to exchange control restrictions imposed by the PRC government.

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 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. Currently, substantially all of our buildings, building improvements and land use rights are pledged against short-term bank loans with various due dates from October to December 2013, which may restrict our abilities to obtain further bank financing until these short-term loans are repaid.

Net cash used in operating activities for the year ended December 31, 2012 was approximately $3.6 million. This was primarily due to our net loss of approximately $20.0 million, adjusted by non-cash related expenses including depreciation and amortization of approximately $1.8 million, stock-based compensation of approximately $0.8 million, provision for doubtful accounts of approximately $3.7 million, and research and development expenses of approximately $4.5 million, offset by a non-cash increase in deferred tax assets of approximately $2.0 million and a net increase in working capital items of approximately $6.3 million. The net increase in working capital items was mainly due to decrease in accounts receivable resulting from decrease in sales and increase in accounts and other

payables, offset by increase in prepaid expenses and tax receivables.

Net cash used in investing activities for the year ended December 31, 2012 was approximately $17.3 million, primarily consisting of approximately $8.7 million paid as a deposit to acquire additional 13 drugs approvals from former equity holders of Shaanxi Weinan and a loan to a third party of approximately $9.5 million. The loan of $9.5 million made to a third party was for the purpose of better utilization of cash and to increase interest income.

Net cash provided by financing activities for the year ended December 31, 2012 was approximately $5.5 million, consisting of proceeds from the three short-term bank loans obtained from a local bank in the PRC and an advance from a related party, offset by repayment of short term bank loans obtained in 2011.

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:

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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.

The following are steps the Company takes in collecting accounts receivable:

Step 1: After the payment term has been exceeded, the Company stops taking orders from the delinquent customer and allows the responsible sales person three to six months to collect the accounts receivable. Most of the accounts receivable will be collected in this step because the sales person's compensation is tied to sales receipts. The Company's normal sales term is 90 days credit period.

Step 2: If the sales person's collection efforts are not successful, the Company hires a collection agent and allows the agent another three to six months to collect the accounts receivable.

Step 3: If the collection agent's efforts are not successful, the Company will commence legal action to collect the accounts receivable.

Our policies for writing off the accounts receivable are as follows:

1. If after taking legal action, it appears that an accounts receivable is not likely to become collectible, such accounts receivable will be written off if it is more than two years old.

2. If during the collection period, the customer provides bankruptcy or other insolvency documentation, the corresponding accounts receivable will be written off.

3. If we are no longer able to locate a particular customer in order for us to take any collection or legal actions, the accounts receivable for such customer will be written off if it is more than two years old.

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.

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.

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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.

Research and Development

The remuneration of the Company's research and development staff, materials used in internal research and development activities, and payments made to third parties in connection with collaborative research and development arrangements, are all expensed as incurred. Where the Company makes a payment to a third party to acquire the right to use a product formula which has received regulatory approval, that payment is accounted for as the acquisition of a license or patent and is capitalized as an intangible asset and amortized over the shorter of the remaining license period or patent life (See above "Intangible Assets").

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.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceed the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred. We adopted this guidance as of January 1, 2010 and applied it to the Meipude and Shaanxi Weinan acquisitions.

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Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2012:

	Payments due by period				
	Total	Within 1 year	1-3 years	3-5 years	>5 years
Short-term bank loan	$4,755,413	$4,755,413	$-	-	-
Due to related party	1,585,138	1,585,138	-	-	-
Research and development contracts	3,504,819	810,085	2,694,734	-	-
Total contractual obligations	$9,845,370	$7,150,636	$2,694,734	-	-

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 7A. 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.

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ITEM 8. FINANCIAL STATEMENTS

BIOSTAR PHARMACEUTICALS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Biostar Pharmaceuticals, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Biostar Pharmaceuticals, Inc. and Subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of operations and other comprehensive loss, stockholders' equity and cash flows for the year then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Biostar Pharmaceuticals, Inc. and Subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realisation of assets and liquidation of liabilities in the normal course of business. As more fully explained on the incident occurred during the year which is set out on page F-6, under the note “Going concern and recent development”, there is uncertainty on whether the Company is able to continue as a going concern as it depends on (1) whether the Company is able to re-establish customer confidence and to generate sales to a sustainable level and (2) the Company’s ability to collect outstanding accounts receivables. Management has already taken appropriate measures as described in that note. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Clement C.W. Chan & Co.
Clement C. W. Chan & Co.
Certified Public Accountants

3/F., & 5/F., Heng Shan Centre, 145 Queen’s Road East, Wanchai, Hong Kong
April 11, 2013

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Report of Independent Registered Public Accounting Firm

To the Audit Committee, Board of Directors and Stockholders

Biostar Pharmaceuticals, Inc

We have audited the accompanying consolidated balance sheet of Biostar Pharmaceuticals, Inc. ("Biostar") and its subsidiaries / variable interest entities (the "Company") as of December 31, 2011 and the related consolidated statement of operations, consolidated statement of stockholders' equity and consolidated statement of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Mazars CPA Limited
Mazars CPA Limited
Certified Public Accountants
Hong Kong
March 27, 2012, except for Note 6 to the consolidated financial statements which is as of April 11, 2013

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$1,759,078	$16,971,789
Accounts receivable, net of allowance for doubtful accounts of $3,645,817 (2011: $143,928)	21,851,412	35,033,650
Inventories - note 2)	847,135	1,373,459
Deposits and other receivables - note 3)	7,740,673	7,129,911
Income tax recoverable	265,007	-
Loan receivables - note 4)	9,510,826	-
Total Current Assets	41,974,131	60,508,809
Non-current Assets		
Deposit - note 3)	8,718,258	3,148,466
Deferred tax assets - note 7)	3,665,951	1,617,688
Property and equipment, net - note 2)	6,980,521	7,379,982
Intangible assets, net - note 2)	9,136,439	10,406,931
Total Assets	$70,475,300	$83,061,876
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts and other payables	$5,732,329	$3,334,418
Short-term bank loans - note 5)	4,755,413	787,116
Due to a related party - note 13)	1,585,138	-
Value-added tax payable	629,672	895,487
Income tax payable	-	1,643,155
Total Current Liabilities	12,702,552	6,660,176
Commitment and contingencies- note 12)		
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 at December 31, 2012 and 2011 - note 6)	9,993	9,400
Additional paid-in capital	23,266,776	22,445,660
Statutory reserve - note 8)	6,737,368	6,490,600
Retained earnings	23,229,743	43,473,834
Accumulated other comprehensive income - note 9)	4,528,868	3,982,206
Total Stockholders' Equity	57,772,748	76,401,700
Total Liabilities and Stockholders' Equity	$70,475,300	$83,061,876

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

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE (LOSS) INCOME

	Year Ended December 31,	
	2012	2011
Sales, net	$49,317,844	$91,965,505
Cost of sales	19,466,821	27,578,441
Gross profit	29,851,023	64,387,064
Operating expenses:		
Advertising expenses - note 2)	14,154,879	21,234,426
Selling expenses	13,734,910	16,992,936
General and administrative expenses	5,951,322	5,676,652
Provision for doubtful account	3,674,905	-
Compensation paid to customers - note 15)	8,044,249	-
Administrative penalty - note 15)	1,601,012	-
Research and development expenses	4,475,806	2,323,996
Total operating expenses	51,637,083	46,228,010
(Loss) Income from operations	(21,786,060)	18,159,054
Other income (expense)		
Interest income	296,146	430,021
Interest expense	(84,387)	(41,942)
Other	599	713
Gain from bargain purchase	-	1,299,063
Impairment loss on land use right	-	(1,784,072)
Foreign exchange gain	-	3,313
	212,358	(92,904)
(Loss) Income before income taxes	(21,573,702)	18,066,150
Provision for income tax (recovery) - note 7)	(1,576,379)	5,892,637
Net (Loss) / Income	$(19,997,323)	$12,173,513
Foreign currency translation adjustment - note 9)	546,662	2,007,184
Comprehensive (Loss) / Income	$(19,450,661)	$14,180,697
Net (loss) income per share		
Basic and diluted	$(2.09)	$1.31
Weighted average number of common shares outstanding		
Basic and diluted	9,570,901	9,298,074

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

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock - note 6)		Additional Paid-in	Statutory	Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Reserve	Earnings	Income	Equity
Balance, December 31, 2010	9,130,485	$ 9,130	$ 20,724,924	$ 4,666,381	$ 33,124,540	$ 1,975,022	$ 60,499,997
Stock-based compensation	269,731	270	1,720,736	-	-	-	1,721,006
Transfer to statutory reserve	-	-	-	1,824,219	(1,824,219)	-	-
Net Income	-	-	-	-	12,173,513	-	12,173,513
Foreign currency translation adjustment	-	-	-	-	-	2,007,184	2,007,184
Balance, December 31, 2011	9,400,216	9,400	22,445,660	6,490,600	43,473,834	3,982,206	76,401,700
Stock-based compensation - note 6)	593,333	593	821,116	-	-	-	821,709
Transfer to statutory reserve - note 8)	-	-	-	246,768	(246,768)	-	-
Net (loss)	-	-	-	-	(19,997,323)	-	(19,997,323)
Foreign currency translation adjustment - note 9)	-	-	-	-	-	546,662	546,662
Balance, December 31, 2012	9,993,549	$ 9,993	$ 23,266,776	$ 6,737,368	$ 23,229,743	$ 4,528,868	$ 57,772,748

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

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BIOSTAR PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$(19,997,323)	$12,173,513
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Deferred tax assets	(2,036,089)	(299,960)
Depreciation and amortization	1,827,852	885,118
Provision for doubtful accounts	3,674,905	-
Recognition of deferred research and development expenses	4,475,805	2,332,681
Credits to accounts receivable as compensation to customers - note 15)	1,347,779	-
Impairment loss on land use rights	-	1,784,072
Stock-based compensation	821,709	1,721,006
Gain from bargain purchase	-	(1,299,063)
Changes in operating assets and liabilities:		
Accounts receivable	6,629,264	(5,332,216)
Inventories	535,583	(609,967)
Deposits and other receivables	(1,870,286)	(10,000)
Accounts payable and accrued expenses	3,197,628	(1,638,295)
Value-added tax payable	(271,889)	(675,338)
Income tax payable/recoverable	(1,918,632)	(528,792)
Exchange difference	-	270,488
Net cash (used in) provided by operating activities	(3,583,694)	8,773,247
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(32,870)	(110,585)
Disposition of property and equipment	21,788	-
Payment for acquisition of Shaanxi Weinan	(823,880)	(4,037,700)
Deposit paid for research and development	-	(3,119,798)
Refund of deposit paid for acquisition of business	-	928,361
Deposit paid to acquire drug approval numbers	(8,714,114)	-
Compensation received for disposed land use right	1,766,589	-
Provision of loan	(9,506,306)	-
Net cash (used in) investing activities	(17,288,793)	(6,339,722)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance from a related party	1,584,384	334,957
Repayment to a related party	-	(334,957)
Proceeds from short-term bank loans	4,753,153	787,116
Repayment of short-term loans	(792,192)	
Net cash provided by financing activities	5,545,345	787,116
Effective of exchange rate changes on cash and cash equivalents	114,431	539,705
Net (decrease) increase in cash and cash equivalents	(15,212,711)	3,760,346

Cash and cash equivalents, beginning balance	16,971,789	13,211,443
Cash and cash equivalents, ending balance	$1,759,078	$16,971,789
SUPPLEMENTAL DISCLOSURES:		
Interest received	$296,146	$430,021
Interest payments	$(62,819)	$(41,942)
Income tax payments	$(2,387,030)	$(6,699,145)
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Prior year deposit paid for acquisition of business	$-	$4,722,699
Payable for acquisition of business	$-	$818,601
Reclassification of land use rights to other receivables	$-	$(5,821,168)

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

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GOING CONCERN AND RECENT PHARMACEUTICAL INDUSTRY DEVELOPMENT IN CHINA

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying consolidated financial statements, the Company incurred a net loss of $20 million for the year ended 2012.

During the year ended December 31, 2012, the whole pharmaceutical industry in PRC has been significantly impacted by an incident, in which, the PRC State Food and Drug Administration (SFDA) had effectively suspended all capsule products manufacturing and sales in PRC from April to July 2012. As a result, the Company's sales were affected as capsule products made up of a significant portion of the Company's sales. The industry as a whole, also experienced delay in accounts receivables collection as customers, who are mostly retail pharmacies, were forbidden to resell capsule products to consumers. The pharmaceutical industry in China, as a whole has not fully recovered from the incident, however, since August 2012, pharmaceutical companies, including the Company, which comply with SFDA requirements received approval from the SFDA to resume sales of capsule products,

Whether the Company can continue as a going concern with business growth depends on (1) the Company's ability to re-establish customer confidence to generate sufficient sales to a sustainable level and (2) the Company's ability to collect outstanding accounts receivables. Management has taken appropriate measures to restore customer confidence and for collection of accounts receivable. Additional measures and efforts may still be required to ensure the Company to continue as a going concern.

These consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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 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.

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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 ("US 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 has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (1) the obligation to absorb losses of the VIE or (2) the right to receive benefits from the VIE".

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.

Foreign Currency

The Company's reporting currency is the U.S. dollar ("$"). The Company's operation in the PRC uses Chinese Yuan Renminbi ("RMB") as its functional currency. The financial statements of the subsidiary and VIEs are translated into U.S. dollars in accordance with Statement of Financial Accounts Standards ("SFAS") No. 52, Foreign Currency Translation, included in the Codification as ASC 830, Foreign Currency Matters. According to the topic, all assets and liabilities were translated at the current exchange rate, stockholders' equity are translated at the historical rates and income statement items are translated at the average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, Reporting Comprehensive Income as a Component of Shareholders Equity, included in the Codification as ASC 220, Comprehensive Income. Foreign exchange transaction gains and losses are reflected in the statement of operations. For the years ended December 31, 2012 and 2011, the foreign currency translation adjustment to the Company's other comprehensive income were $546,662 and $2,007,184.

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Use of Estimates

The preparation of the consolidated financial statements in conformity with US 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.

Contingencies

Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or un-asserted claims that may result in such proceedings, the Company's management evaluates the perceived merits of any legal proceedings or un-asserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed.

Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. As of December 31, 2012 and 2011, cash and cash equivalents were mainly denominated in RMB and were placed with banks in the PRC. These cash and cash equivalents may not be freely convertible into foreign currencies and the remittance of these funds out of the PRC may be subjected to exchange control restrictions imposed by the PRC government.

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.

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:

	December 31, 2012	December 31, 2011
Raw materials	$ 405,900	$ 534,338
Work in process	125,007	135,510
Finished goods	193,145	187,286
Goods in transit	123,083	516,325
	$ 847,135	$ 1,373,459

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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:

Buildings	30 years
Building improvements	30 years
Machinery & equipment	5-10 years
Furniture & fixtures and vehicles	5-10 years

Property and equipment consisted of the following:

	December 31, 2012	December 31, 2011
Buildings	$ 3,539,652	$ 3,515,301
Building improvements	1,969,840	1,956,289
Machinery & equipment	1,167,414	1,131,235
Furniture & fixtures	66,741	66,282
Vehicle	130,202	157,239
Construction in progress	2,083,964	2,065,116
	8,957,813	8,891,462
Less: Accumulated depreciation	(1,977,292)	(1,511,480)
	$ 6,980,521	$ 7,379,982

As of December 31, 2012 and December 31, 2011, expenditures incurred for the construction of a new production plant were $2.1 million.

As of December 31, 2012, all buildings of Aoxing Pharmaceutical and Shaanxi Weinan have been pledged to a financial institution in the PRC to secure short term bank loans. (note – 5b)

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. During the year ended December 31, 2011, the Company made impairment loss on land use right of $1,784,072, and no impairment of intangible assets have been identified for the year ended December 31, 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 in last year. 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:

	December 31, 2012	December 31, 2011
Land use rights	$ 3,430,002	$ 3,406,406
Proprietary technologies	8,913,131	8,851,814
	12,343,133	12,258,220
Less: Accumulated amortization	(3,206,694)	(1,851,289)
	$ 9,136,439	$ 10,406,931

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The estimated future amortization expenses related to intangible assets as of December 31, 2012 are as follows:

Years Ending December 31,	
2013	$ 1,355,405
2014	1,355,405
2015	1,355,405
2016	1,355,405
2017	172,338
Thereafter	3,542,481

As of December 31, 2012, all land use rights of Aoxing Pharmaceutical and Shaanxi Weinan are pledged to a financial institution in the PRC to secure short term bank loans. (note – 5b)

Long-Lived Assets

The Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, included in the Codification as ASC 360, Property, Plant, and Equipment, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets.

The Company periodically evaluates the carrying value of long-lived assets to be held and used. Impairment loss is recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. No loss on disposal occurred during any of the periods presented.

Fair Value of Financial Instruments

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, included in the Codification as ASC 825, Financial Instruments, requires that the Company discloses estimated fair values of financial instruments. The carrying amounts reported in the balance sheets for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

Value-added Tax Payable

The Company is subject to a value-added tax rate of 17% on product sales in the PRC. Value-added tax payable is computed net of value-added tax paid on purchases for sales in the PRC.

Revenue Recognition

The Company’s revenue recognition policies are in compliance with Staff Accounting Bulletin (“SAB”) 104, included in the Codification as ASC 605, Revenue Recognition. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

The Company does not allow its customers to return products. The Company’s customers can exchange products only if they are damaged in transportation.

Revenue reported is net of value-added tax.

Stock-Based Compensation

The Company has elected to use the Black-Scholes-Merton (“BSM”) pricing model to determine the fair value of stock options on the dates of grant. Also, the Company recognizes stock-based compensation using the straight-line method over the requisite service period.

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The Company values stock awards using the market price on or around the date the shares were awarded and includes the amount of compensation as a period compensation expense over the requisite service period.

For the years ended December 31, 2012 and 2011, the Company recognized stock-based compensation of $821,709 and $1,721,006, respectively.

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 years ended December 31, 2012 and 2011, the Company incurred advertising expense of approximately $14.2 million and $21.2 million, respectively.

Research and Development

The remuneration of the Company's research and development staff, materials used in internal research and development activities, and payments made to third parties in connection with collaborative research and development arrangements, are all expensed as incurred. Where the Company makes a payment to a third party to acquire the right to use a product formula which has received regulatory approval, that payment is accounted for as the acquisition of a license or patent and is capitalized as an intangible asset and amortized over the shorter of the remaining license period or patent life (See above "Intangible Assets").

Income Taxes

The Company adopts SFAS No. 109, Accounting for Income Taxes, included in the Codification as ASC 740, Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

On January 1, 2007, The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), included in the Codification as ASC 740, Income Taxes. The topic addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

Earnings per Share

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

Diluted 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).

Comprehensive income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive income for the periods presented includes net income and foreign currency translation adjustments.

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Statement of Cash Flows

In accordance with SFAS No. 95, Statement of Cash Flows, included in the Codification as ASC 230, Statement of Cash Flows, cash flows from the Company's operations is based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash, accounts receivable and other receivables arising from its normal business activities. The Company places its cash in what it believes to be credit-worthy financial institutions. The Company has a diversified customer base, most of which are in the PRC. The Company controls credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk, establishes an allowance, if required, for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is limited.

Segment Reporting

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, included in the Codification as ASC 280, Segment Reporting, requires use of the management approach model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceed the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from contingencies must also be recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of earnings from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred. We adopted this guidance as of January 1, 2010 and applied it to the Shaanxi Weinan acquisition in last year.

Recent accounting pronouncements

In December 2011, the FASB issued guidance on offsetting assets and liabilities and disclosure requirements in Accounting Standards Update No. 2011-11, Disclosures about Offsetting Assets and Liabilities ("Update 2011-11"). Update 2011-11 requires that entities disclose both gross and net information about instruments and transactions eligible for offsetting the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting agreement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. Update 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods with those annual periods. The

implementation of the disclosure requirement is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, which amends the authoritative accounting guidance under ASC Topic 220 "Comprehensive Income." The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under generally accepted accounting principles in the United States of America ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. Adoption of this update is not expected to have a material effect on the Company's consolidated results of operations or financial condition.

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As of December 31, 2012, there are no recently issued accounting standards not yet adopted that would have a material effect on the Company's financial statements.

Note 3 – DEPOSITS AND OTHER RECEIVABLES

Deposits and other receivables consisted of the following:

	December 31, 2012	December 31, 2011
Current portion		
Deposits paid for research and development		
- for clinical trials - note 12a)	$ -	$ 1,298,743
- of new medicine - note 12b)	3,170,275	-
Deposits paid for advertising	475,542	-
Other receivables - note 11)	4,094,856	5,831,168
Prepaid expenses and other receivables	$ 7,740,673	$ 7,129,911
Non-current portion		
Deposits paid to former equity holders of Shaanxi Weinan to acquire drug approval numbers - notes 13 and 16)	$ 8,718,258	-
Deposits paid for research and development of new medicine	-	3,148,466
	$ 8,718,258	$ 3,148,466

Other receivable comprises mainly from two disposed land use rights. ("See Note 11 – Disposed Land Use Rights")

During the year ended December 31, 2012, deposits of $1,298,743 and $3,148,466, for clinical trials and new medicine, respectively, were recognized as research and development expense.

Note 4 – LOAN RECEIVABLES

On November 20, 2012, the Company advanced $9,510,826 to a third party as a commercial loan, interest bearing at 13% per annum. The principal and interest are to be repaid on December 31, 2013. As at December 31, 2012, carrying amount of the loan receivables approximate its fair value due to short maturity.

Note 5 – SHORT-TERM BANK LOANS

Short-term bank loans consists of the followings:

Inception date	Details	Balance as at December 31, 2012	2011
March 21, 2011	RMB 3,000,000, one year term loan, annual interest rate at 7.88% (a)	$ -	$ 472,269
May 25, 2011		-	314,847

	RMB 2,000,000, one year term loan, annual interest rate at 8.20% (a)				
October 24, 2012	RMB 10,000,000, one year term loan, annual interest rate at 7.80% (b)		1,585,137		-
November 8, 2012	RMB 10,000,000, one year term loan, annual interest rate at 7.80% (b)		1,585,138		-
December 5, 2012	RMB 10,000,000, one year term loan, annual interest rate at 7.80% (b)		1,585,138		-
	Total	$	4,755,413	$	787,116

(a) The loans were secured by (i) personal guarantee executed by a major shareholder of the Company and (ii) pledge of the Company's buildings and land use rights with carrying amount of approximately $2.7 million as of December 31, 2011 and had been repaid on May 28, 2012 and April 1, 2012.

(b) The loans are secured by (i) personal guarantee executed by a major shareholder of the Company and (ii) pledge of all buildings and land use rights of Aoxing Pharmaceutical and Shaanxi Weinan.

As of December 31, 2012 and 2011, the carrying amount of the short-term bank loans approximates the fair values due to short maturity.

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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"). Par value remained unchanged at $0.001 after 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 Reverse 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. Unless otherwise stated, the number and price of common stocks, including warrants and options and other related disclosures made throughout these consolidated financial statements retroactively reflected the effect of such Reverse Split.

(a) Common stock

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

During the year ended December 31, 2011	Shares issued	Value
i issued to an outside consultant valued at $6.09 per shares	10,000	$60,900
ii awarded to employees based on 2009 Stock Plan, fair value at $4.23 per share	259,731	1,098,662
Total common stock issued during the year ended December 31, 2011	269,731	$1,159,562

During the year ended December 31, 2012	Shares issued	Value
iii issued to a former consultant based on previous agreement, valued at $1.17 per share	33,333	$39,000
iv awarded to employees based on 2011 Incentive Stock Plan, fair value at $1.17 per share	560,000	655,200
Total common stock issued during the year ended December 31, 2012	593,333	$694,200

All shares of common stock issued above were fully vested and not subject to forfeiture when issued. The Company recognized $694,200 and $1,159,562 as stock-based compensation expense, which was included in general and administrative expense, for the years ended December 31, 2012 and 2011.

(b) Warrants

As at December 31, 2012 and 2011, the Company has 195,784 warrants outstanding, with weighted average exercise price of $8.67 and $8.67.

During the year ended December 31, 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. The Company recognized $6,395 as stock-based compensation expense in the year ended December 31, 2011, which was included in general and administrative

expense. No warrants were issued during the year ended December 31, 2012.

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

		Outstanding as at December 31,	
Expiry date	Exercise Price	2012	2011
May 31, 2013	$ 6.00	18,333	18,333
June 30, 2014	8.22	10,784	10,784
November 1, 2014*	9.00	166,667	166,667
		195,784	195,784

* 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 one cent ($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.

(c) 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.

The following table presents the weighted-average assumptions used to estimate the fair values of the stock options granted in the periods presented:

	Year Ended December 31,	
	2012	2011
Weighted Risk-free interest rate (%)	0.86%	2.1%
Weighted Expected dividend yield (%)	-	-
Weighted Expected option life (years)	5.0	4.6

Weighted Expected volatility (%)		77.9%		53.0%
Weighted average grant date fair value	$	1.65	$	2.85

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The following tables summarize activities for the Company's options for the years ended December 31, 2012 and 2011.

	Number of options	Weighted Average Exercise Price ($)	Remaining Life (years)
Balance, December 31, 2011	362,222	8.22	2.94
Granted, April 20, 2012	24,000	1.68	4.27
Balance, December 31, 2012	386,222	7.81	2.08
Vested as at December 31, 2012	357,777	7.40	1.59
Unvested as at December 31, 2012	28,445	2.64	3.80

	Number of options	Weighted Average Exercise Price ($)	Remaining Life (years)
Outstanding, December 31, 2010	355,555	8.39	2.92
Granted, April 7, 2011	23,333	5.91	4.27
Granted, April 7, 2011	6,667	7.80	2.27
Forfeited	(23,333)	8.40	3.82
Balance, December 31, 2011	362,222	8.22	2.94
Vested as at December 31, 2011	321,111	7.78	2.66
Unvested as at December 31, 2011	41,111	8.23	3.55

The Company recognized $127,510 and $555,048 as stock-based compensation expense, which was included in general and administrative expense, during the years ended December 31, 2012 and 2011. Unrecognized stock-based compensations as at December 31, 2012 was $6,147 and be fully recognized in 0.33 years.

Note 7 - 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 operations in the PRC for the years ended December 31, 2012 and 2011, and has recorded income tax provision for the periods.

The provision for income taxes consists of the following:

	Year Ended December 31, 2012	2011
Current:		
USA	$ -	$ -
PRC	459,711	6,180,200
Deferred:		

USA	-	-
PRC	(2,036,090)	(287,563)
Provision for income taxes	$ (1,576,379)	$ 5,892,637

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The reconciliation of USA statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31, 2012	2011
Income tax at USA statutory rate (34%)	$ (7,335,059)	$ 6,142,491
Foreign rate differential	1,838,521	(1,088,522)
Tax effect of permanent differences due to:		
Stock based compensation	279,381	-
Disallowed research and development expense	1,118,985	-
Penalty	400,253	-
Disallowed portion of impairment of accounts receivable	874,807	-
Other	406,297	-
Change in valuation allowance	840,469	838,668
Provision for income taxes	$ (1,576,379)	$ 5,892,637

The deferred tax assets for the USA operation as of December 31, 2012 and 2011 consists mainly of net operating loss carry-forwards and for which a full valuation allowance has been provided, as the management believes it is more likely than not that these assets will not be realized in the future. Components of deferred tax assets in the USA were as follows:

	December 31, 2012	December 31, 2011
USA Tax benefit on net operating loss carry forward	$ 1,685,031	1,574,877
Valuation allowance	(1,685,031)	(1,574,877)
Deferred tax asset - USA	$ -	$ -

As of December 31, 2012 and 2011, the Company had federal and state net operating loss carry-forwards of $4,955,974 and $4,631,990 available to offset future taxable income in the USA respectively. The net operating loss carry-forwards will expire, if unused, in varying amounts through the year ending December 31, 2032.

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). Components of deferred tax assets in the PRC were as follows:

	December 31, 2012	December 31, 2011
PRC Tax benefit on net operating loss carry forward	$ 1,146,673	-
Tax effect of temporary differences due to		
Taxation book value of long-term assets	$ 1,411,563	$ 1,772,270

Provision of bad debts		875,223		-
Provision of commission expense		764,522		-
Other temporary differences		198,285		(155,032)
Valuation allowance		(730,315)		-
Deferred tax asset - PRC	$	3,665,951	$	1,617,688

As at December 31, 2012, the Company had net operating loss carry-forward of approximately $4.6 million (RMB28.9 million) available to offset future taxable income in the PRC. The net operating loss carry-forward will expire, if unused, in the year ending December31, 2019.

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Uncertain Tax Positions

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

For the years ended December 31, 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.

Note 8 - 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 the 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, and the cumulative amount shall 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 December 31, 2012 and December 31, 2011, the Company's VIE had allocated $6,737,368 and $6,490,600, respectively, to these non-distributable reserve funds.

Note 9 - OTHER COMPREHENSIVE INCOME

Balance of related after-tax components comprising accumulated other comprehensive income included in stockholders' equity as of December 31, 2012 and 2011 were as follows:

	December 31, 2012	December 31, 2011
Accumulated other comprehensive income, beginning of period	$ 3,982,206	$ 1,975,022
Change in cumulative translation adjustment	546,662	2,007,184
Accumulated other comprehensive income, end of period	$ 4,528,868	$ 3,982,206

Note 10 – ACQUISITION

Shaanxi Weinan Acquisition

In October 2011, Aoxing Pharmaceutical entered into a Share Transfer Agreement to acquire Shaanxi Weinan from the holders of 100% of equity interests in Shaanxi Weinan. The aggregate purchase price is RMB 61 million (approximately $9.55 million), in cash and payable in several tranches. As of December 31, 2012 and 2011, the unpaid amount were nil and $818,601.

Shaanxi Weinan owns approvals and permits for a portfolio of 86 pharmaceutical products and one health product, all of which, were added to the Company's current pharmaceutical product portfolio following the completion of this

acquisition. The Company completed this acquisition on October 25, 2011, and the name of the acquired company was changed to Shaanxi Weinan Aoxing Pharmaceuticals, LLC.

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The assets acquired from Shaanxi Weinan have been accounted for under the acquisition method of accounting (formerly referred to as the purchase method) in accordance with FASB ASC 805, Business Combinations. The assets were recorded at their estimated fair values as of the acquisition date. A summary of the net assets received from Shaanxi Weinan and the estimated fair value adjustments resulting in the bargain purchase are present below:

	Received from Shaanxi Weinan	Fair Value Adjustments	Recorded by the Company
Inventories	$ 397,443	$ -	$ 397,443
Property and equipment	1,103,385	486,815	1,590,200
Intangible assets	5,190,781	2,351,318	7,542,099
Deferred tax assets	2,027,262	(709,534)	1,317,728
	$ 8,718,871	$ 2,128,599	$ 10,847,470
Purchase consideration (RMB 61,000,000)			$ 9,548,407
Gain from bargain purchase			$ 1,299,063

As agreed between the management of the Company and the then stockholders of Shaanxi Wainan, the then shareholders shall be entitled to the cash and cash equivalents as well as accounts receivable and be responsible for the liabilities of Shaanxi Wainan upon completion of the acquisition. For details, refer to the Company's SEC filing on December 23, 2011 for the Audited Financial Statements of the Business Acquired, and the Unaudited Pro Forma Condensed Combined Financial Statements.

Results for the year ended December 31, 2011 include operating results of Shaanxi Weinan from the date of the acquisition. Shaanxi Weinan contributed $836,378 of incremental sales and $197,345 of incremental operating income for the year ended December 31, 2011. Acquisition related costs for the year ended December 31, 2011 amounted to approximately $200,000 and are included in the general and administrative expenses in the Company's consolidated Statements of Operations. The acquired property and equipment and intangible assets are depreciated and amortized based on its estimated useful life.

The following unaudited pro forma information presents our consolidated results of operation as if the Shaanxi Weinan acquisition has occurred on January 1, 2010, after the effect of certain adjustment, including increased amortization and depreciation expenses resulting from fair value adjustments on intangible assets and plant and equipment with related deferred tax adjustments.

	Year Ended December 31, 2011	2010
Net sales	$ 96,791,387	$ 86,104,586
Net income	$ 12,297,587	$ 17,994,774
Earnings per share -basic	$ 1.32	$ 2.04
Earnings per share -diluted	$ 1.32	$ 2.04

Note 11 – DISPOSED LAND USE RIGHTS

During the 4th quarter of 2011, following the protracted negotiations with the local government of Zouan Town, Xi'an City, the Company determined to give up the land use right for the construction of raw materials processing plant in Zouan Town. The land use right for the 34,803 square meter facility was acquired in 2009 in consideration for RMB 20 million (approximately $3.1 million). The Company's determination was preceded by ongoing attempts to resolve a labor dispute with the local government relating to a previous paper mill labor force on this site to be retained by the Company following its acquisition of the property and business, which attempts yielded no positive results. In March 2012, the Company reached an agreement with the local government by obtaining a refund on part of the consideration paid for the land (RMB 12.5 million, approximately $1.9 million). The foregoing refund was recorded as "Other Receivable" in the fiscal year 2011. During the year ended December 31, 2012, the Company has received amounts totaling approximately $1.8 million.

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In December 2011, Xianyang Land Reserve Center, the governmental entity that holds the title to all land in the Shaanxi Province, reclaimed approximately a 33,228 square meter portion of the real estate (with carrying amount of RMB 28.5 million or approximately $4.5 million) at our Xianyang, Shaanxi Province headquarters, none of which have been used by our Company. We leased all 52,264 square meters of real estate in Xianyang under 50-year land use right expiring in June 2056. At the time of the lease commencement in 2006, all of the land was designated for industrial use; however, in 2011, the local Municipal Construction Planning Department repurposed a portion of the real estate for residential use.

The Company has reached an agreement with the local government, whereby the Company will be reimbursed RMB 24.8 million (approximately $3.9 million) for the reclaimed portion of its building and land use right. As a result of the foregoing, the Company recorded $3.9 million as Other Receivable, and recognized an impairment loss of $0.6 million. As at December 31, 2012, these amounts were still outstanding.

Note 12 - COMMITMENTS

a) Research and Development on clinical trials

The Company has previously entered into three agreements with certain research institutes to conduct clinical trials for two new and one existing drug. The Company's total commitment for these agreements is approximately $2.1 million. As at December 31, 2012 and 2011, the Company's total accumulated progress payment towards these clinical trials were approximately $1.3 million. Upon completion of these clinical trials, the company will be obligated to pay approximately an additional $0.8 million.

b) Capital commitments

In December 2010, the Company entered into an agreement with a research institution to jointly develop a new drug for treatment of cardiovascular disease. The development is to be carried out by the research institute. Pursuant to the agreement, the Company's total commitment is $11.5 million, in exchange for 60% share of the intellectual property upon successful development of the drug. In the event that the research institute fail to successfully develop the drug, the Company's contribution is fully refundable. As at December 31, 2012 and 2011, the Company's total accumulated contribution was approximately $8.8 million and $5.6 million, respectively. The Company is obligated to contribute approximately an additional $2.7 million in January 2014.

Note 13 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012, the Company obtained an advance of RMB 10,000,000 (approximately $1.6 million) from a major shareholder. The funds were used as part of the deposit for the acquisition of drug patents from former equity holders of Shaanxi Weinan. The amount is unsecured, interest-free and repayable upon demand.

Note 14 - SEGMENT INFORMATION

For the years ended December 31, 2012 and 2011, all revenues of the Company represented the 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. All tangible and intangible assets are located in the PRC.

Note 15 - ADMINISTRATIVE PENALTY AND COMPENSATION

During the year ended December 31, the Company was imposed a non-disputable administrative penalty of approximately $1.6 million by the SFDA.

During the year ended December 31, the Company also paid $8.0 million as compensation to its customers, for costs of holding the Company's product during the sales suspension, of which approximately $6.7 million was paid in cash and approximately $1.3 million as credits to accounts receivable.

Note 16 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events for potential recognition and disclosure through the date of financial statements was issued.

On March 11, 2013, Aoxing Pharmaceutical entered into an agreement with all the former equity holders ("Former Equity Holders") of Shaanxi Weinan, to acquire 13 drug approval numbers for total consideration of RMB 55 million (approximately $8.7 million) and 1,602,564 shares of the Company's common stock. Deposit of RMB 55 million (approximately $8.7 million) was paid during the year ended December 31, 2012 (note 3). The transaction was completed on April 3, 2013.

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers"), the Company conducted an evaluation of its disclosure controls and procedures. As defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including the Certifying Officers, to allow timely decisions regarding required disclosure. Based on this evaluation, the Certifying Officers have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2012.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

The Company's management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on its assessment the Company's management believes that, as of December 31, 2012, the Company's internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Company's registered accounting firm regarding internal control over financial reporting. The management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission.

Changes in Internal Control over Financial Reporting

No changes in the Company's internal control over financial reporting have come to management's attention during the fourth quarter of 2012 that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

Limitations on Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not

occur or that all control issues and instances of fraud, if any, within the Company have been detected.

ITEM 9B. Other Information

None.

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PART III

ITEM 10. Directors, Executive Officers, and Corporate Governance

The following table sets forth the names and ages of our directors and executive officers as of April 12, 2013.

Name	Position	Age	Date of Appointment
Ronghua Wang	Chairman, Chief Executive Officer	58	November 1, 2007
Qinghua Liu	Interim Chief Financial Officer and Director	46	November 1, 2008
Leung King-fai	Independent Director (1) (4)	40	April 7, 2011
Haipeng Wu	Independent Director (1)(2)(3)	56	July 1, 2007
Zhongyang Shang	Independent Director (1)(2)(3)	62	December 30, 2009
Shuang Gong	Secretary of Board	46	April 1, 2008
Zhenghong Wang	Chief Operating Officer	33	March 26, 2012

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Nominating and Governance Committee.
(4) Audit Committee Financial Expert

Biographical Information of Directors and Executive Officers

Biographical information with respect to the Company's current executive officers and directors is provided below.

Ronghua Wang has been our Chairman and Chief Executive Officer since our inception and Chairman of Aoxing Pharmaceutical since September of 2006 and a director since 1997. He has served as Aoxing Pharmaceutical's Chief Executive Officer since 1997 and its President since 2007. From 1997, he was Aoxing Pharmaceutical's Manager in charge of sales, management and manufacturing. Prior to 2006, Mr. Wang was employed at Geological Research Institute and Drugs Research Institute (both in the PRC), and a General Contractor from 1985 to 1994. He graduated from Northwest University, with a Bachelor's degree in Geology. His day to day leadership as our Chairman and Chief Executive Officer provides him with intimate knowledge of our operations.

Qinghua Liu has been our director since 2007. Ms. Liu also serves as Chief Financial Officer of Aoxing Pharmaceutical, a position she has held since 2006. She began working at Aoxing Pharmaceutical in 1996 as the Finance Department manager. Prior to that, Ms. Liu served as an accountant at Xing Ping Paper Mill and at a traditional Chinese medicine research academy. Ms. Liu graduated from Northwest Light Industry College in Shaanxi, PRC in 1990 with an Associate's Degree in financial management. She brings her experience in the areas of accounting and finance to the Board and the Company.

Leung King-fai has been our director since April 2011. From September 2005 to present, Mr. Leung has been serving as Executive Director and Financial Controller of Hao Wen Holdings Limited, an investment holding company, engages in the manufacture, sale, and trade of medicine in Mainland China. Prior to that engagement, from May 2002 to September 2005, he was employed as an accountant at Grandtop Services Limited, a Hong Kong company. From April 2002 to November 2005, he held the position of Accounting Manager and Accounting Manager at MP logistics International Holdings Limited. From March 1999 to May 2002, he was engaged as an accountant at the firm of Armando Y C Chung & Co, CPA, assisting small to large companies, manufacturing and trading companies, hotels and construction companies. He holds a Bachelor's degree in Commerce from Deakin University, Victoria, Australia (1996). In addition, he also holds a Continuing Education Certificate in Advanced Taxation from City University of

Hong King and The Taxation Institute of Hong Kong (2000). He is a member of the Hong Kong Institute of Certified Public Accountants. He brings his experience and expertise in the areas of accounting, corporate finance and taxation to the Board and the Company.

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Haipeng Wu has been our director since July 2007. From 2001, Mr. Wu has worked at Automobile Repairing Department as Manager and Chief Executive Officer. He graduated from Northwest University in Xi'an, PRC in 1982. He brings his experience and expertise in the areas of management and operations.

Zhongyang Shang has been our director since December 30, 2009, and is also the chairman of the board of directors' compensation committee. Mr. Shang is currently the director of Shaanxi Province Administration of Industry and Commerce's Bureau of Fair Trading, a position he has held since 2006. From 1996 to 2006, Mr. Shang was the director of the Administration of Industry and Commerce for the municipalities of Tongchuan and Xianyang in Shaanxi Province. Mr. Shang is a graduate of the Central Party College of Economics and Management. He brings his experience in the areas of public finance, administration and marketing to the Board and the Company.

Shuang Gong has been corporate secretary of Aoxing Pharmaceutical since 2006. She is also Administration Manager of Aoxing Pharmaceutical. From 1998 to 2000, Ms. Gong served as Assets Operation Manager of West Securities and Assistant Economist at West Securities; she currently serves as Assistant Office Director of Aoxing Pharmaceutical. Ms. Gong graduated from Xi'an Institute of Technology in Xi'an, PRC, with a Bachelor's degree in Machine and Electricity Integration and earned a second Bachelor's degree in Business Management from Provincial Party College in Xi'an, China in 2001.

Zhenghong Wang has been Chief Operating Officer of Aoxing Pharmaceutical since March 2012. From 2001 until now he has served in various capacities at Aoxing Pharmaceutical including accountant, recruiting manager, sales manager, marketing director in charge of Guizhou Province. Mr. Wang graduated from Shaanxi Professional Financial Technology College in 2001.

Family Relationships

There are no family relationships between any of the Company's executive officers or directors and there are no arrangements or understandings between a director and any other person pursuant to which such person was elected as director. There were no material changes to the procedures by which shareholders may recommend nominees to the Board since the Company's last disclosure of such policies.

Involvement in Certain Legal Proceedings

There are no material proceedings to which any director, executive officer or affiliate of the Company, any owner of record or beneficial owner of more than five percent of any class of voting securities of the Company, or any associate of any such director, executive officer, affiliate or security holder is a party adverse to the Company or has a material interest adverse to the Company.

To the best of our knowledge, none of the following events have occurred during the past ten years that are material to an evaluation of the ability or integrity of any director, director nominee or executive officer of the Company:

- any bankruptcy petition filed by or against, or any appointment of a receiver, fiscal agent or similar Officer for, the business or property of such person, or any partnership in which such person was a general partner or any corporation of which such person was an executive officer either, in each case, at the time of the filing for bankruptcy or within two years prior to that time;

- any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

-

being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining such person from, or otherwise limiting, the following activities:

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(i) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or

(ii) engaging in or continuing any conduct or practice in connection with such activity;

(iii) engaging in any type of business practice; or engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws.

- being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any federal or state authority barring, suspending or otherwise limiting for more than 60 days the right of such person to act as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, Director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;

- being found by a court of competent jurisdiction in a civil action, the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or federal commodities law, and the judgment in such civil action or finding by the SEC or the Commodity Futures Trading Commission has not been subsequently reversed, suspended, or vacated;

- being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial instructions or insurance companies, including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

- being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a) (26) of the Exchange Act), any registered entity (as defined in Section 1(a) (29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or person associated with a member.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires officers, directors and persons who own more than ten percent of a registered class of equity securities to, within specified time periods, file certain reports of ownership and changes in ownership with the SEC.

Based solely upon a review of Forms 3 and Forms 4 furnished to the Company pursuant to Rule 16a-3 under this Act during the Company’s most recent fiscal year, and Forms 5 with respect to the most recent fiscal year, it is the Company’s understanding that, except for Zhongyang Shang’ Form 3 (date of required filing – December 30, 2009) and Zhenghong Wang’s Form 3 (date of the required filing – March 26, 2012), all such forms required to be filed pursuant to Section 16(a) were timely filed as necessary by the executive officers, directors and security holders.

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Code of Ethics

We have adopted a code of ethics that applies to our officers, directors and employees, including our chief executive officer, senior executive officers, principal accounting officer, and other senior financial officers. Our code of ethics is available on our website at www.biostarpharmaceuticals.com. A copy of our code of ethics will also be provided to any person without charge, upon written request sent to us at our offices located at No. 588 Shiji Avenue, Xianyang City, Shaanxi Province, People's Republic of China 712046.

Audit Committee

Leung King-fai currently serves as Chairman of the Audit Committee. The Board has determined that he is also qualified an "Audit Committee financial expert" as defined by Item 407(d)(5) of Regulation S-K under the Securities Act. Other members of the Audit Committee are Haipeng Wu and Zhongyang Shang. The Board has determined that each member of the Audit Committee is "independent" as set forth by the Nasdaq Marketplace Rules and under the federal securities laws. The purpose of the Audit Committee is to assist the Board in its general oversight of Biostar's financial reporting, internal controls and audit functions. The Audit Committee's primary responsibilities include, among others:

- Review whether or not management has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Company;
- Review whether or not management has established and maintained processes to ensure that an adequate system of internal controls is functioning within the Company;
- Review whether or not management has established and maintained processes to ensure compliance by the Company with legal and regulatory requirements that may impact its financial reporting and disclosure obligations;
- Oversee the selection and retention of the Company's independent registered public accounting firm, and their qualifications and independence;
- Prepare a report of the Audit Committee for inclusion in the proxy statement for the Company's annual meeting of shareholders;
- Review the scope and cost of the audit, the performance of the independent registered public accounting firm, and their report on the annual financial statements of the Company; and
- Perform all other duties as the Board may from time to time designate.

The board of directors has adopted a written charter for the audit committee. A copy of the audit committee charter is posted on our corporate website at: www.biostarpharmaceuticals.com.

Material Changes to the Procedures by which Security Holders May Recommend Nominees to the Board of Directors

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

Compensation Committee

We established our Compensation Committee in December 2009. The Committee consists of Haipeng Wu and Zhongyang Shang, each of whom is an independent director. Zhongyang Shang is the chairman of the Committee. The duties of the Committee include, among others, to:

- Establish director compensation plan or any executive compensation plan or other employee benefit plan which requires shareholder approval;
-

Establish significant long-term director or executive compensation and director or executive benefits plans which do not require stockholder approval;

- Determine if any other matter, such as severance agreements, change in control agreements, or special or supplemental executive benefits, within the Committee's authority;
- Design overall compensation policy and executive salary plan; and
- Setting the annual base salary, annual bonus, and annual and long-term equity-based or other incentives of each corporate officer, including the CEO.

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The board of directors has adopted a written charter for the compensation committee. A copy of the compensation committee charter is posted on our corporate website at: www.biostarpharmaceuticals.com.

Nominating Committee

We established our nominating committee in December 2009. The nominating committee consists of Haipeng Wu and Zhongyang Shang, each of whom is an independent director. Haipeng Wu is the chairman of the nominating committee. The nominating committee assists in the selection of director nominees, approves director nominations to be presented for stockholder approval at our annual general meeting and fills any vacancies on our board of directors, considers any nominations of director candidates validly made by stockholders, and reviews and considers developments in corporate governance practices. The board of directors has adopted a written charter for the nominating committee. A copy of the nominating committee charter is posted on our corporate website at: www.biostarpharmaceuticals.com.

ITEM 11. Executive Compensation

Summary Compensation Table

This discussion focuses on the compensation paid to “named executive officers,” which is a defined term generally encompassing all persons that served as principal executive officer at any time during the fiscal year as well as certain other highly paid executive officers serving in such positions at the end of the fiscal year. During 2012 and 2011, the named executive officers consisted of Ronghua Wang (Chief Executive Officer (Principal Executive Officer)), Zack Zibing Pan (former Chief Financial Officer through December 14, 2012), Qinghua Liu (Interim Chief Financial Officer (Principal Financial Officer effective from December 18, 2012), Zhenghong Wang (Chief Operating Officer) and Amei Zhang (former Chief Operating Officer through March 26, 2012).

Name/Office	Year	Salaries ($)	Bonus ($)	Option Awards ($)(6)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Ronghua Wang Chairman, CEO (1)	2012	17,111	-	-	-	-	-	17,111
	2011	16,733	-	114,458	-	-	-	131,191
Qinghua Liu Interim CFO (2)	2012	-	-	-	-	-	-	-
Zack Zibing Pan Former CFO (3)	2012	100,392	-	80,517	-	-	-	180,909
	2011	81,500	-	54,654	-	-	-	136,154
Amei Zhang COO (4)	2012	1,521	-	-	-	-	-	1,521
	2011	5,949	-	34,095	-	-	-	40,044
	2012	4,563	-	-	-	-	-	4,563

Zhenghong Wang COO (5)							

(1) Mr. Ronghua Wang was appointed our President and Chief Executive Officer on November 1, 2007. Mr. Wang received the compensation set forth above from Aoxing Pharmaceutical in 2012 and 2011. Mr. Wang's cash compensation was paid in RMB which, for reporting purposes, has been converted to U.S. dollars at the conversion rate of RMB 6.3116 to one U.S. dollars for 2012, and RMB 6.4544 to one U.S. dollars for 2011. Mr. Wang was granted options to purchase 73,334 shares of our common stock, adjusted retroactively to reflect the one-for-three reverse stock split on October 22, 2009, and all of which had already vested by December 31, 2011.

(2) Ms. Liu was appointed as Interim CFO on December 18, 2012. Prior to this appointment, Ms. Liu served as, and currently still remained as a member of our Board of Directors. Ms. Liu's compensation for the year ended December 31, 2012 is reflected in director compensation table.

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(3) Mr. Pan was appointed effective as of April 7, 2011. Prior to this appointment, Mr. Pan served on the Audit Committee of the Board and received director compensation for such services. He received the compensation in USD from Biostar Pharmaceuticals. On December 14, 2012, Mr. Pan resigned as CFO.

(4) Ms. Amei Zhang was appointed as the Company's COO on July 7, 2009. She received the compensation in RMB from Aoxing Pharmaceutical which, for reporting purpose, has been converted to US dollars at the conversion rate of RMB 6.3116 to one U.S. dollars for 2012, and RMB 6.4544 to one U.S. dollars for 2011. Effective as of March 26, 2012, Ms Amei Zhang resigned as the Company's COO.

(5) Mr. Wang was appointed as the Company's COO on March 26, 2012. He received the compensation in RMB from Aoxing Pharmaceutical which, for reporting purpose, has been converted to US dollars at the conversion rate of RMB 6.3116 to one U.S. dollars for 2012.

(6) Represents the amortized value of the stock option award granted calculated in accordance with FASB ASC Topic 718. For the purposes of making the option calculation for 2012, the following assumptions were made: (a) weighted expected life (years) – 5.0; (b) volatility — 77.9% ; (c) dividend yield — 0; and (d) weighted discount rate — 0.86% for the 2012 year option grant. For the purposes of making the option calculation for 2011, the following assumptions were made: (a) weighted expected life (years) – 4.6; (b) volatility — 53.0% ; (c) dividend yield — 0; and (d) weighted discount rate — 2.1% for the 2011 year option grant. For 2010, the following assumptions were made: (a) expected life (years) – 3.3; (b) volatility — 93.3%; (c) dividend yield — 0; and (d) discount rate — 1.7% for the 2010 year option grant.

Outstanding Equity Awards - 2012

Name	Grant Date	Number of Securities Underlying Unexercised Options Exercisable*	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price ($)*	Option Expiration Date
Ronghua Wang	10/22/2009	73,333(1)	-	7.8	10/21/2014
Qinghua Liu	10/22/2009	26,667(1)	-	7.8	10/21/2014
Zack Zibing Pan (2)	12/30/2009	16,667(3)	-	13.35	12/30/2013
	4/7/2011	23,333(4)		5.91	4/6/2016
	4/20/2012		24,000(5)	1.68	4/19/2017
Amei Zhang (6)	10/22/2009	26,667(1)	-	7.8	10/21/2014
Zhenghong Wang	10/22/2009	6,667(1)	-	7.8	10/21/2014

(1) One third of the options vested on October 22, 2009, October 22, 2010 and October 22, 2011.
(2) Resigned effective as of April 6, 2011.
(3) One third of the options vested on December 20, 2010, December 30, 2011 and December 30, 2012.
(4) The options vested on April 7, 2012.
(5) The options are to be vested on April 20, 2013.
(6) Resigned effective as of March 23, 2012.
* The number of shares underlying the options and the exercise price have been adjusted retroactively to reflect the one-for-three reverse stock split (except item 5)

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Employment Agreements

Except as set forth below, we have no any compensatory plans or arrangements resulting from the resignation, retirement or any other termination of any of our executive officers, from a change-in-control, or from a change in any executive officer's responsibilities following a change-in-control.

Aoxing Pharmaceutical has employment agreements with Mr. Ronghua Wang for 5-year term ending June 30, 2015; Shuang Gong, who serves as corporate secretary of both Aoxing Pharmaceutical and Biostar, and Amei Zhang, who was chief operating officer for both Aoxing Pharmaceutical and Biostar. The employment agreements of Ms. Gong and Ms. Zhang have the same material terms. Their employment agreements provide for a term of 5 years, year-end bonuses based on profitability of Aoxing Pharmaceutical, a salary increases based on performance, and health and insurance benefits. Aoxing Pharmaceutical may terminate the employment agreements for cause by reason of serious neglect, criminal charges, or violation of the Aoxing Pharmaceutical's rules by the employee. On the other hand, the employee may terminate the employment agreement on 30-day notice and may terminate without notice in the event Aoxing Pharmaceutical violates health and safety regulations, fails to provide labor protection or fails to pay the employee.

Effective as of March 26, 2012, Ms Amei Zhang resigned as our Chief Operating Officer, and effective the same date Mr. Zhenghong Wang was appointed as our new Chief Operating Officer.

In April 2011, upon his appointment as our Chief Financial Officer, our Board approved the following employment terms for Mr. Zack Zibing Pan, among others: (i) an initial 12-month employment term effective as of April 7, 2011, (ii) annual base salary of $120,000 per annum, subject to review by the Board for subsequent increases on an annual basis; (iii) participation in all benefits available to all full-time employees of the Company, (iv) a stock option grant in the amount of 23,334 shares, adjusted retroactively to reflect the one-for-three reverse stock split, at an exercise price per share equal to the average of the closing price for the Company's securities on five trading days following the execution of this Agreement, which grant will vest twelve months after the issuance date, and (v) a grant of 10,000 shares of the Company's common stock, adjusted retroactively to reflect the one-for-three reverse stock split.

On April 20, 2012, our Board approved an amendment to the Employment Agreement by and between the Company and Zack Zibing Pan to extend Mr. Pan's employment term for another 24 month period. Mr. Pan will continue to be compensated at the rate of USD$120,000 per annum (subject to review by the Board for subsequent increases on an annual basis). The Board also authorized a stock option grant pursuant to the Company's stock option plan in the amount of 24,000 shares of the Company's common stock per annum, at the exercise price of $1.68 per share (or exercise price equal to the average of the closing price for the Company's securities for the five trading days of the week the execution of the amendment to the Employment Agreement).

Director Compensation

The following table provides compensation information for our directors, except for Chairman Mr. Wang whose compensation was shown in ITEM 11, during the fiscal year ended December 31, 2012:

	Fees ($)	Stock Awards ($)	Option Awards ($) (1)	No-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All other Compensation ($)	Total ($)
Qinghua Liu	10,457	-	-	-	-	-	10,457

Haipeng Wu	4,753	-	-	-	-	-	4,753
King-fai Leung	9,506	-	3,135	-	-	-	12,641
Zhongyang Shang	3,169	-	43,858	-	-	-	47,027

(1) Reflects dollar amount expensed by the Company during the year ended December 31, 2012 for financial statement reporting purposes pursuant to FASB ASC 718, which requires the Company to determine the overall value of the stock award as of the date of grant, and to then expense that value over the service period over which the stock award becomes exercisable (vested). As a general rule, for time in service based stock awards, the Company will immediately expense any stock award or portion thereof that is vested upon grant, while expensing the balance on a pro rata basis over the remaining vesting term of the stock award.

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Agreements with Directors

Under our agreement with Mr. Leung, he was appointed for one year or until the next annual shareholders' meeting, and will be entitled to receive annual compensation of Renminbi ("RMB") 60,000 for his services rendered as a member of the board of directors and as chairman of the audit committee, payable on a monthly basis and subject to his continuous service on the board of directors. Mr. Leung is additionally granted options under our 2009 Incentive Stock Plan (the "Plan") to purchase up to 6,667 shares of Common Stock, and in connection therewith, Mr. Leung had entered into a nonstatutory stock option agreement with us. Additionally, Mr. Leung will be reimbursed for his expenses incurred in connection with the performance of his duties, including travel expenses. We have also agreed to obtain directors' and officers' liability insurance, and to maintain such insurance during Mr. Pan's appointment on the board of directors. Mr. Pan's appointment terminates immediately if he: (a) resigns for any reason; (b) is removed or not re-elected at the next annual meeting of shareholders; (c); is declared bankrupt; (d) is disqualified from acting as a director; (e) dies; or (f) is ordered to resign by a court of competent jurisdiction.

Under our agreement with Mr. Shang, he was appointed for one year or until the next annual shareholders' meeting, and will be entitled to receive annual compensation of RMB 20,000 for his services rendered as a member of the board of directors and as chairman of the compensation committee and member of the audit and nominating committees, payable in quarterly installments and subject to his continuous service on the board of directors. Mr. Shang is additionally granted options under the Plan to purchase up to 16,667 shares of Common Stock, and in connection therewith, Mr. Shang will enter into a nonstatutory stock option agreement with us. Additionally, Mr. Shang will be reimbursed for his expenses incurred in connection with the performance of his duties, including travel expenses. We have also agreed to obtain directors' and officers' liability insurance, and to maintain such insurance during Mr. Shang's appointment on the board of directors. Mr. Shang's appointment terminates immediately if he: (a) resigns for any reason; (b) is removed or not re-elected at the next annual meeting of shareholders; (c); is declared bankrupt; (d) is disqualified from acting as a director; (e) dies; or (f) is ordered to resign by a court of competent jurisdiction.

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

Equity Compensation Plan Information

The Company's annual general shareholder meeting, held on October 28, 2011, had approved "Biostar Pharmaceuticals, Inc. 2011 Stock Option Compensation Plan" (hereinafter the "2011 Plan"). The maximum number of shares that may be issued under the 2011 Plan is 850,000 shares of our common stock. Under this Plan, the Company may issue common stock and/or options to purchase common stock to certain officers, directors and employees and consultants of the Company and its subsidiaries. The 2011 Plan is administered either by the compensation committee or a committee appointed by the Board, which is comprised of a combination of two or more officers and/or members of the Board. The committee has full and complete authority, in its discretion, but subject to the express provisions of the Plan to approve the eligible persons nominated by the management of the Company to be granted awards of common stock ("Awards") or stock options, to determine the number of Awards or stock options to be granted to an eligible person; to determine the time or times at which or stock options shall be granted; to establish the terms and conditions upon which Awards or Stock Options may be exercised; to remove or adjust any restrictions and conditions upon Awards or Stock Options; to specify, at the time of grant, provisions relating to exercisability of Stock Options and to accelerate or otherwise modify the exercisability of any Stock Options; and to adopt such rules and regulations and to make all other determinations deemed necessary or desirable for the administration of the Plan. As of April 12, 2013, 266,000 shares of our common stock and/or options to purchase common stock remains available for future issuance under the 2011 Plan.

The Company's annual general shareholder meeting, held on October 26, 2012, had approved "Biostar Pharmaceuticals, Inc. 2012 Stock Option Compensation Plan" (hereinafter the "2012 Plan"). The maximum number of shares that may be issued under the 2012 Plan is 750,000 shares of our common stock. All of our employees, officers, and directors, and consultants are eligible to be granted options or restricted stock awards under the 2012 Plan. The 2012 Plan is administered by the Board, which has all the power to administer the 2012 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. As of December 31, 2012, no shares of common stock have been issued under the 2012 Plan.

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	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance (c)
Equity compensation plans approved by security holders			
2009 Plan*	362,222	$ 8.22	-
2011 Plan	24,000	1.68	266,000
2012 Plan	-	-	750,000
Equity compensation plans not approved by security holders	-	-	-
TOTAL	386,222	$ 7.81	1,016,000

* The number of shares underlying the options and the exercise price have been adjusted retroactively to reflect the one-for-three reverse stock split.

Security Ownership of Certain Beneficial Owners and Management

Set forth below is information regarding the beneficial ownership of our common stock, as of April 12, 2013, by:

- each person known to us that beneficially owns more than 5% of our outstanding shares of common stock;
- each of our directors;
- each of our named executive officers; and
- all of our current directors and executive officers as a group.

We believe that, except as otherwise noted below, each named beneficial owner has sole voting and investment power with respect to the shares listed. Unless otherwise indicated herein, beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and includes voting or investment power with respect to shares beneficially owned. Shares of common stock underlying options or warrants currently exercisable or exercisable on or within 60 days of the date of this report are deemed outstanding for computing the percentage ownership of the person holding the options or warrants, but are not deemed outstanding for computing the percentage ownership of any other person.

Name of Beneficial Owner (1)	Amount of Beneficial Ownership	Percent of Class
Ronghua Wang (2)	3,128,992	26.8%
Liu Qinghua (3)	27,667	*
Haipeng Wu (4)	6,667	*
Zhenghong Wang (5)	6,667	*
Shuang Gong (6)	44,334	*
Leung King-fai (7)	6,667	*
Zhongyang Shang (8)	16,667	*
All directors and executive officers of the Company (seven persons)	3,237,661	27.5%

*Less than 1%.

(1) Unless otherwise indicated, the address for each of beneficial owner is: No. 588 Shiji Xi Avenue, Xianyang City, Shaanxi province, PRC, 712046.
(2) Includes 73,334 shares of common stock issuable upon exercise of stock options that were granted on October 22, 2009.
(3) Includes 26,667 shares of common stock issuable upon exercise of stock options that were granted on October 22, 2009.
(4) Includes 6,667 shares of common stock issuable upon exercise of stock options that were granted on October 22, 2009.
(5) Includes 6,667 shares of common stock issuable upon exercise of stock options that were granted on October 22, 2009.
(6) Includes 33,334 shares of common stock issuable upon exercise of stock options that were granted on October 22, 2009.
(7) Includes 16,667 shares of common stock issuable upon exercise of stock options that were granted on December 30, 2009.
(8) Independent director.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Transactions

During the year ended December 31, 2012, the Company obtained an advance of RMB 10,000,000 (approximately $1.59 million) from a major shareholder. The funds were used as part of the deposit for the acquisition of drug patents from former equity holders of Shaanxi Weinan. The amount is unsecured, interest-free and repayable upon demand.

Our executive officers and directors, and principal stockholders, including their immediate family members and affiliates, are not permitted to enter into a related party transaction with us without the prior consent of our Audit Committee, or other independent committee of our board of directors in the case it is inappropriate for our Audit Committee to review such transaction due to a conflict of interest. Any request for us to enter into a transaction with an executive officer, director, principal stockholder, or any of such persons' immediate family members or affiliates must first be presented to our Audit Committee for review, consideration and approval. All of our directors, executive officers and employees are required to report to our Audit Committee any such related party transaction. In approving or rejecting the proposed agreement, our Audit Committee shall consider the relevant facts and circumstances available and deemed relevant to the Audit Committee. Our Audit Committee shall approve only those agreements that, in light of known circumstances, are in, or are not inconsistent with, our best interests, as our Audit Committee determines in the good faith exercise of its discretion.

Director and Board Nominee Independence

Our Board is subject to the independence requirements of the Nasdaq Global Market ("Nasdaq"). The Board undertakes periodic reviews of director independence. During this review, the Board considers transactions and relationships between each director or any member of his immediate family and Biostar and its affiliates, including those transactions that are contemplated under Item 404(a) of Regulation S-K to determine whether any such relationships or transactions exist that are inconsistent with a determination that the director is independent. Our Board has determined that all current members of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee are ''independent" in accordance with the Nasdaq independence requirements and that the members of the Audit Committee are also "independent" for purposes of Section 10A-3 of the Exchange Act. Ronghua Wang, in addition to serving on the Board, also serves as our Chief Executive Officer, and does not serve on any of the Board committees. The majority of the Board is comprised of independent directors. The Board based these determinations primarily on a review of the responses of the directors and executive officers to questions regarding employment and transaction history, affiliations and family and other relationships and on discussions with the directors and the fact that no director previously reported a change in circumstances that could affect his independence. None of our directors engages in any transaction, relationship, or arrangement contemplated under Item 404(a) of Regulation S-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Mazars CPA Limited ("Mazars") served as our independent registered public accounting firm for our fiscal year ended December 31, 2010 and 2011. On January 8, 2013, Mazars resigned as our independent registered public accounting firm and we appointed Clement C.W. Chan & Co. ("Clement") as our new independent registered public accounting firm for our fiscal year ended December 31, 2012.

The following table presents fees for professional services rendered by the Company's prior and current independent registered public accounting firms for the fiscal years 2011 and 2012:

Services Performed	2012	2011
Audit Fees - statutory	$ 135,000	$ 220,000
Audit Fees – acquisition of Shaanxi Weinan	$ -	100,000
Audit-Related Fees	$ -	$ -
Tax Fees	$ -	$ -
All Other Fees	$ -	$ -
Total Fees	$ 135,000	$ 320,000

Audit Committee's Pre-Approval Policies and Procedures

Our Audit Committee has the sole authority to pre-approve all audit and non-audit services provided by our independent accountants. The Audit Committee has adopted policies and procedures for the pre-approval of services provided by the independent accountants. The Audit Committee on an annual basis reviews audit and non-audit services performed by the independent accountants. All audit and non-audit services are pre-approved by the Audit Committee, which considers, among other things, the possible effect of the performance of such services on the accountants' independence. As permitted under the Sarbanes-Oxley Act of 2002, the Audit Committee may delegate pre-approval authority to one or more of its members. Any service pre-approved by a delegate must be reported to the Audit Committee at the next scheduled quarterly meeting. The Audit Committee considered whether the provision of the auditors' services, other than for the annual audit and quarterly reviews, is compatible with its independence and concluded that it is compatible. In 2012, all such services were pre-approved by the Audit Committee.

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PART IV

ITEM 15. EXHIBITS

Exhibit Number	Description
2.1	Assets Acquisition Agreement with Xi'an Meipude Biotechnology Co., Ltd. (5)
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 filed with the corporate secretary of State of the State of Maryland on April 3, 2012. (12)
3.6	Bylaws (1)
4.1	2009 Incentive Stock Plan ** (3)
4.2	2011 Stock Option Compensation Plan (11)**
4.3	2012 Stock Option Compensation Plan (13) **
10.1	Labor Contract between Shaanxi Aoxing Pharmaceutical Co., Ltd. and Ronghua Wang dated June 30, 2010 (6)
10.2	Form of Director Offer Letter (4)
10.3	Employment Agreement with Zack Pan dated as of April 7, 2011 (7) **
10.4	Amendment No. 1 to the Employment Agreement with Zack Pan dated as of April 20, 2012 (9)**
10.5	Share Transfer Agreement (8)
10.6	Supplemental Agreement to Share Transfer Agreement (10)
10.7	Product Research and Development Agreement, dated December 16, 2010, by and between Shanxi Aoxing Pharmaceutical Co., Ltd. and Northwest University, Colleague of Life Science*
14.1	Code of Ethics (4)
21	List of subsidiaries (14)
23.1	Consent of Independent Registered Public Accounting Firm *
23.2	Consent of Independent Registered Public Accounting Firm *
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.
** Management agreement or compensatory plan or agreement.

(1) Previously filed and incorporated by reference from 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 and incorporated by reference from as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on November 3, 2009.
(3) Incorporated by reference from the Company's Schedule 14A filed with the SEC on October 1, 2010.
(4) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on January 5, 2010.
(5) Incorporated by reference from the Company's Quarterly Report on Form 10-Q filed with the SEC on May 14, 2010.
(6) Incorporated by reference from the Company's Quarterly Report on Form 10-Q filed with the SEC on August 13, 2010.
(7) Incorporated by reference from the Company's Quarterly Report on Form 10-Q filed with the SEC on May 16, 2011.
(8) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on October 11, 2011.
(9) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on April 24, 2012.
(10) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on March 15, 2013.
(11) Incorporated by reference from the Company's Registration Statement on Form S-8 filed with the SEC on August 17, 2012.
(12) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on April 4, 2012.
(13) Incorporated by reference from the Company's Proxy Statement on Schedule 14A filed with the SEC on September 21, 2012.
(14) Incorporated by reference from the Company's Annual Report on Form 10-K filed with the SEC on March 27, 2012.

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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: April 15, 2013 By: /s/ Ronghua Wang
Ronghua Wang
Chief Executive Officer and President
(Principal Executive Officer)

Date: April 15, 2013 By: /s/ Qinghua Liu
Qinghua Liu
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

In accordance with the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 15, 2013 By: /s/ Qinghua Liu
Qinghua Liu, Interim Chief Financial Officer and Director

Date: April 15, 2013 By: /s/ Haipeng Wu
Haipeng Wu, Director

Date: April 15, 2013 By: /s/ King-fai Leung
King-fai Leung, Director

Date: April 15, 2013 By: /s/ Zhongyang Shang
Zhongyang Shang, Director

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