Biostar Pharmaceuticals, Inc.
Form 10-K
April 13, 2017

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

FORM 10-K

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

For the fiscal year ended: December 31, 2016
Or

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

For the transition period from _____ to _____

Commission File Number: 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 712046
People's Republic of China
(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 Capital 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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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

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

As of the close of business as of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter in 2016, the aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant was approximately $9,654,116 based on the closing sale price of $4.42 per share post one-for-seven reverse stock split ($0.63 per pre-reverse share pre-split) of our common stock on NASDAQ Stock Market LLC on the same date.

As of March 28, 2017, the Company had 2,637,188 shares of common stock issued and outstanding.

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TO ANNUAL REPORT ON FORM 10-K
FOR YEAR ENDED DECEMBER 31, 2016

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CAUTIONARY NOTE 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 2016" mean the year ended December 31, 2016, 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 Huaren Pharmaceuticals Ltd. ("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 944,396 shares after one-for-seven reverse stock split (6,610,771 shares pre-reverse split) 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.

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 director 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.

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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.

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

The Agreements dated July 9, 2010 were merely replacement of the Agreements dated November 1, 2007 and therefore, there was no significant change in the contractual terms between the Agreements dated July 9, 2010 and November 1, 2007. The then 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.

Following the change in registered owners of Aoxing Pharmaceutical on May 24, 2013, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on May 24, 2013.

The Agreements dated May 24, 2013 are merely replacements of the Agreements dated July 9, 2010 and therefore, there is no significant change in the contractual terms between the Agreements dated May 24, 2013, 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 May 23, 2013. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Following the change in registered owners of Aoxing Pharmaceutical on October 29, 2014, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on October 29, 2014.
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The Agreements dated October 29, 2014 are merely replacements of the Agreements dated May 24, 2013 and therefore, there is no significant change in the contractual terms between the Agreements dated October 29, 2014, May 24, 2013, 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 October 29, 2014. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Following the change in registered owners of Aoxing Pharmaceutical on May 11, 2015, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on May 11, 2015.

The Agreements dated May 11, 2015 are merely replacements of the Agreements dated October 29, 2014 and therefore, there is no significant change in the contractual terms between the Agreements dated May 11, 2015, October 29, 2014, May 24, 2013, 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 May 11, 2015. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Shaanxi Biostar’s control over Aoxing Pharmaceutical under the Contractual Arrangements requires us to consolidate its financial statements pursuant to 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.

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.

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The following diagram illustrates our current corporate structure:

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 $9.5 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 $1.6 million) shall be paid in the Company's common stock. Based on an agreed issuance price of $7.70 per share, RMB 11 million is equivalent to 228,938 shares of common stock of the Company. The Company completed this acquisition in April 2013.

On March 10, 2014, Biostar and certain institutional investors entered into a securities purchase agreement (the "Purchase Agreement") in connection with an offering ("Offering") pursuant to which the Company agreed to sell, and the investors agreed to purchase 235,714 shares after one-for-seven reverse stock split (1,650,000 shares pre-reverse split) of the Company's common stock and warrants to purchase up to 94,286 shares after split (660,000 shares pre-reverse split) of the Company's common stock, for aggregate gross proceeds, before deducting fees to the placement agents and other estimated offering expenses payable by the Company, of approximately $4.1 million. The warrants will be immediately exercisable upon issuance and will remain exercisable for three years thereafter at an exercise price of $3.23 per share. The exercise price and number of shares underlying the warrants are subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. The net proceeds from the offering will be used for working capital and other general corporate purposes. Moody Capital Solutions, Inc. and Axiom Capital Management, Inc. served as the placement agents for the offering. The Offering was effected as a takedown off the Company's shelf registration statement on Form S-3 (File No. 333-192963), which became effective on January 3, 2014, pursuant to a prospectus supplement filed with the Securities and Exchange Commission.

On October 11, 2016, the Company and certain institutional investors entered into a securities purchase agreement (the "Purchase Agreement") in connection with an offering ("Offering") pursuant to which the Company agreed to sell, and the investors agreed to purchase 425,000 shares of the Company's common stock and warrants to purchase up to 212,500 shares of the Company's common stock, for aggregate gross proceeds, before deducting fees to the placement agent and other estimated offering expenses payable by the Company, of approximately $1.69 million. The warrants are accounted for in accordance to ASC 815 "Derivatives and Hedging" detailed in Note 2 of the Consolidated Financial Statements. The warrants are exercisable beginning six months and a day after the closing of this offering and expire three and a half years from the date of issuance at an exercise price of $5.55 per share. The exercise price and number of shares underlying the warrants are subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. The exercisability of the warrants may be limited if, upon exercise, the holder thereof or any of its affiliates would beneficially own more than 4.9% of the Company's common stock. The net proceeds from the offering will be used for working capital and other general corporate purposes. FT Global Capital, Inc. served as the placement agents for the offering. The Offering was effected as a takedown off the Company's shelf registration statement on Form S-3 (File No. 333-192963), which became effective on January 3, 2014, pursuant to a prospectus supplement to be filed with the Securities and Exchange Commission.

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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

The Company had no sales on all Aoxing Pharmaceutical Products in the year ended December 31, 2016 due to Aoxing Pharmaceutical's temporary suspension of production to conduct maintenance of its production lines for the renewal of its GMP certificates. We expect the improvement work in Aoxing Pharmaceutical's production lines will be completed, ready for inspection by the local authority and the GMP certificates will be renewed in the first half of 2017 at which time the production will resume. The Company also experienced substantial decrease in the sales volume of Shaanxi Weinan products due to replacing production equipment to comply with government's environmental protection requirement. We currently anticipate that the production of Shaanxi Weinan products will resume in May 2017. There is no assurance that the production lines will resume and the renewal of GMP certificates will occur as anticipated or, even if they do, we will be able to return to the production levels as anticipated.

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 and a disease affecting approximately 10% of the Chinese population. Our current product line also includes twelve other OTC products, seventeen prescription-based pharmaceuticals.

Our products are derived from medicinal herbs that are either grown at our own facility or purchased from our suppliers. We rely on approximately four suppliers for our raw materials. For Fiscal 2016, 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.

Our products are currently being sold in over 28 provinces in the PRC through 63 distributors and an established network of more than 226 dedicated sales people. In addition, we have been enhancing our marketing efforts with the launch of our internet-based China Hepatitis Internet Hospital 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.

Since 2013, we have provided subcontracting services to hospital which provides the prescription. For the year ended December 31, 2016 and 2015, the subcontracting services to hospital contributed $0 and $12.4 million in income, respectively.

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Our Products

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

Name	Treatments	Benefits and Side Effects	SFDA Classification
XinAoxing Oleanolic Acid Capsule	Hepatitis B	Believed to relieve 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, headache and fever	Believed to 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	Used as Chinese traditional medicine for treatment of pain and other symptoms associated with menstruation. There are no known side effects.	OTC
Shu Tongle	Rheumatism, arthritis	Used for treatment of rheumatism, arthritis and pain relief	OTC
So easy	rhinitis	Used for treatment of rhinitis	OTC
New discovery	Hair loss	Used for treatment of hair loss	OTC
Jingang Tablets	For waist and knees, impotence, nocturnal emission, premature ejaculation, frequent urination	Used to protect the kidneys and increase blood flow in sexual organs by triggering production of natural hormones in the body.	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.	Used as anti-inflammatory drug, alleviating cold symptoms, analgesic Tongqiao.	Prescription
Deafness Tongqiao pills	For hepatobiliary Huosheng, head swelling, deafness and tinnitus, pus in ears, dry stool, urine-yellow.	Used to circulate blood flow, unblock orifice, and relieve chest oppressing symptoms.	OTC

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Yanlixiao Capsules	For heat syndrome bacillary dysentery, acute tonsillitis, acute and chronic bronchitis, acute gastroenteritis, acute mastitis and other infectious diseases.	Used for clearing and detoxifying, anti-inflammatory.	Prescription
Piracetam Tablets		Used to treat 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 pulse; coronary heart disease, arrhythmias	Helps Qi and blood circulation; used to relieve pain.	Prescription
Hyperthyroidism Capsules	For the patients of hyperthyroidism with the symptoms of palpitations, sweating, irritability, dry throat, rapid pulse, and other symptoms of hyperthyroidism.	Used to improve blood circulation and suppress clustering of red blood cells and platelets	Prescription
Zhitongtougu Ointment	Joint pain, swelling, tenderness or dysfunction.	Used for alleviating cold symptoms, blood stagnation line, tongluo and relieving pain. Also used for patients with knee, lumbar blood stasis.	OTC
Fosfomycin Calcium Capsules		Is prescribed orally for the following infections caused by pathogen that is sensitive to 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
Wenweishu Capsules		Used to help with 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
	For cataract.		OTC

Chuzhang Zehaifu Tablets		Used to clears the abnormalities in the body, such as black bile and kidney deficiencies. Also helps with eye problems, such as redness, dry eyes, and blurred vision.	
Muxiang Shunqi Pills	Abdominal pain, bloating.	Believed to promote Qi circulation and resolve dampness inside the body. Protects and strengthen the spleen and stomach. For distension, abdominal distention, nausea and vomiting, loss of appetite caused by the dampness obstructing spleen and stomach, chest and diaphragm.	
Sifangwei Capsules	Stomach pain, Hyperacidity	Smoothing the liver stomach pain, Acid to relieve pain. For stomach pain, too much gastric acidity, indigestion, stomach and duodenum ulcer with the above symptoms caused by liver stomach discord.	Prescription
Aspirin Enteric-coated Tablets	Antithrombotic	Prevention of transient ischemic attack, myocardial infarction, atrial fibrillation, unstable angina.	Prescription

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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.

There are two kinds of medications 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).

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 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.

Due to change of the PRC government regulations and policies, we stopped manufacturing 5 products including Hernia Belt, Tangning Capsule, Yizi Capsule, Shengjing Capsule and Aoxing Ointment.

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 business opportunities for us. We are pursuing opportunities in several sectors that we believe will experience growth and that we can address with our manufacturing and distribution expertise. The following is a brief overview of these potential sectors:

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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. 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.

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 a product for the treatment of coronary heart disease, myocarditis and angina pectoris and we are marketing the product within the rural and urban markets.

Dysmenorrhe

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. Some of our pharmaceutical and nutrient products are designed to relieve symptoms associated with the flu.

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.

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

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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. 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 customer accounted for 100% of our net sales in fiscal 2016. Two of our top ten customers accounted for 65% of our total net sales in fiscal 2015.

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.

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.

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In Fiscal 2016, Xi'an Chinese Medicine Group Lintong Branch (Xi'an Chinese Medicine Lintong), Xi'an Innovation Printing, and Nanjing Xiaoying Pharmaceutical Group Co., Ltd. ("Nanjing Xiaoying") accounted for approximately 35%, 28% and 8% of our total raw material purchase, respectively. In Fiscal 2015, Xi'an Chinese Medicine and Herbs Factory ("Xi'an Chinese Medicine"), Shaanxi Haoyuan Chinese Medicine and Herbs Factory ("Haoyuan") and Xianyang Wenlin Color Printing Co., Ltd. ("Wenlin") accounted for approximately 26%, 27% and 7% 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. We will also be able to sell excesses on the market as raw materials.

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, 2013 to July 6, 2023
"Shi Li Ming" (Certificate: No. 3180355)	August 7, 2013 to August 6, 2023
"Aoxing No.1" (Certificate: No. 3168883)	February 21, 2004 to February 20, 2024
"Cha Ge De " & device (Certificate: No. 4770095)	December 21, 2008 to December 20, 2018
"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, 2015 to November 20, 2025
"KangbingDu" & device (Certificate: No. 3832841)	April 14, 2016 to April 13, 2026
"Shabingjun & device (Certificate: No. 3832844)	April 14, 2016 to April 13, 2026
"KangbingDu" & device (Certificate: No. 7858678)	January 14, 2011 to January 13, 2021
"XinNao No.1" (Certificate: No. 3619525)	October 14, 2015 to October 13, 2025
"Baoertong" & device (Certificate: No. 3829856)	June 14, 2016 to June 13, 2026

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.

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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.

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, 2016, the accumulated balance of our statutory reserve funds reserves amounted to RMB 55 million (approximately $7.4 million) and the accumulated profits of our consolidated PRC entities that were available for dividend distribution amounted to RMB 92.6 million (approximately $10.2 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.

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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.

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.

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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 three 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 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 Chinese universities and research institutes in the PRC to develop effective, high margin products. Specifically:

- In 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.

- Also, in 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 acquired a 60% equity interest in DBZ and is entitled to 60% of the after-tax profits after the product is put into production.

Aoxing has 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. As of the date of this Annual Report, we have paid an aggregate of RMB 72 million (approximately $10.4 million) to Northwest University in connection with the agreement.

- In November 2016, Aoxing Pharmaceutical spent RMB 7.6 million (approximately $1.1 million) to conduct the research and development of a new medicine with Northwest University, Aoxing has the exclusive right to produce and sell the new medicine in China and own the exclusive approval number.

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Employees

As of March 28, 2017, we had 200 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 second quarter usually are the highest among quarters. Sales in the second and third quarters of fiscal 2016 and 2015 were approximately 26% and 27%, and 52% and 16%, respectively. Due to the production suspension in 2016, the seasonality of sales in 2016 may not conform to the usual pattern.

ITEM 1A. RISK FACTORS

An investment in our securities involves a high degree of risk. Before making an investment decision, you should carefully consider the risks described here. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our securities could decline due to any of these risks, and you may lose all or part of your investment.

Risks Relating to Our Business

We have limited sources of working capital and will need substantial additional financing

Working capital required to implement our business plan will most likely be provided by funds obtained through offerings of our equity, debt, debt-linked securities, and/or equity-linked securities, and revenues generated by us. No assurance can be given that we will have revenues sufficient to support and sustain our operations or that we would be able to obtain equity/debt financing in the current economic environment. If we do not have sufficient working capital and are unable to generate sufficient revenues or raise additional funds, we may delay the completion of or significantly reduce the scope of our current business plan; delay some of our development and clinical or marketing efforts; postpone the hiring of new personnel; or, under certain dire financial circumstances, substantially curtail or cease our operations.

Our current levels of working capital and the need for additional financing raise substantial doubt as to our ability to continue as a going concern. We may need substantial additional capital to fund our operations. To date, we have relied almost exclusively on organically generated revenues financing transactions to fund losses from our operations. Our inability to obtain sufficient additional financing would have a material adverse effect on our ability to implement our business plan and, as a result, could require us to significantly curtail or potentially cease our operations. At December 31, 2016, we had cash and cash equivalents of approximately $0.18 million, total current assets of approximately $7.4 million and total current liabilities of approximately $5.6 million. We will need to engage in capital-raising transactions in the near future. Such financing transactions may well cause substantial dilution to our shareholders and could involve the issuance of securities with rights senior to the outstanding shares. Our ability to complete additional financings is dependent on, among other things, the state of the capital markets at the time of any

proposed offering, market reception of the Company and the likelihood of the success of its business model, of the offering terms, etc. There is no assurance that we will be able to obtain any such additional capital as we need to finance our efforts, through asset sales, equity or debt financing, or any combination thereof, on satisfactory terms or at all. Additionally, no assurance can be given that any such financing, if obtained, will be adequate to meet our capital needs and to support our operations. If adequate capital cannot be obtained on a timely basis and on satisfactory terms, our revenues and operations and the value of our common stock and common stock equivalents would be materially negatively impacted and we may cease our operations.

There is substantial doubt as to our ability to continue as a going concern

We have suffered losses from operations and have insufficient liquidity to fund ongoing operations which raise substantial doubt about our ability to continue as a going concern. Accordingly, we will need to increase sales volume and obtain additional capital to continue as a going concern and to fund our operations. Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may not accomplish, we expect to finance future cash needs primarily through offerings of our debt or equity securities, or strategic collaborations. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope, or eliminate one or more of our programs, or substantially curtail or close our operations altogether.

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If we are unable to renew our GMP certificates and subsequently achieve anticipated production levels, our operations may be materially adversely affected.

The Company has experienced a substantial decrease in sales volume of all Aoxing Pharmaceutical Products in the years ended December 31, 2015 and 2016, respectively. This decrease was due to Aoxing Pharmaceutical's temporarily suspension of production to conduct maintenance of its production lines to renew its GMP certificates which is currently anticipated to be completed in the first half of 2017. While our production levels of Shaanxi Weinan products helped to offset the substantial decrease in our sales volume in the most recent fiscal quarter, our sales volume continues to remain at the present decreased levels. However, there is no assurance that the production lines at Aoxing will resume as anticipated and the renewal of GMP certificates will occur when anticipated, or even if they are renewed, we will be able to return to the anticipated production levels. Our inability to regain anticipated production levels may have material adverse effects on our business, operations and financial performance, and may render the Company insolvent.

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

Aoxing Pharmaceutical's operating history may not provide a meaningful basis on which to evaluate its business. We cannot assure you that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

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

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

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

We have no equity ownership interest in Aoxing Pharmaceutical. Our ability to control Aoxing Pharmaceutical and consolidate its financial results is through a series of contractual arrangements between it and our wholly owned subsidiary Shaanxi Biostar. Management of Aoxing Pharmaceutical is an affiliate of us and of Shaanxi Biostar and the stockholders of Aoxing Pharmaceutical are also our stockholders. Thus, the contractual arrangements were not entered into as a result of arms' length negotiations because the parties to such agreements are under common control. While we believe that the contractual arrangements are legal and enforceable under PRC law, our affiliates control the parties to the contractual arrangements, and it could be possible for them to cause Aoxing Pharmaceutical and its shareholders to breach the contractual arrangements, in which event our unaffiliated investors would have little or no recourse because of the inherent difficulties in enforcing their rights since all our assets are located in the PRC. In the event that management of Aoxing Pharmaceutical decides to cause a breach the contractual arrangements, the risk of loss for the affiliated shareholders of Aoxing Pharmaceutical could be lower than that for the unaffiliated investors, and the interests of the management and shareholders of Aoxing Pharmaceutical would be in conflict with the interest

of our other stockholders.

Our sales to customers are highly concentrated and the loss of our top customers may significantly adversely affect our business and the price of our common stock.

Our top customer accounted for 100% of our net sales in fiscal 2016; two of our top ten customers accounted for 65% of our total net sales in fiscal 2015. The loss of our top customers may significantly adversely affect our business and the price of our common stock.

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

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

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

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

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

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

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

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

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

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

- difficulties in the assimilation of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition or investment transaction;

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

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

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We may not have adequate internal accounting controls.

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

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require every public company to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal controls over financial reporting. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. Some members of our management team have limited or no experience operating a public company, or subject to SEC rules and requirements, including SEC reporting practices and requirements that are applicable to a public company. While we are in the process of engaging a consulting firm to evaluate and assist us with implementing a viable internal control system, our lack of familiarity with Section 404 may nevertheless unduly divert management's time and resources in executing the business plan. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. So far, our external auditors have not reported to our board of directors any significant weakness on our internal control and provided recommendations accordingly. Nevertheless, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our stock. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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

Our success is, to a certain extent, attributable to the management, sales and marketing, and pharmaceutical factory operational expertise of key personnel. We are dependent upon the services of Mr. Wang, our President, Chief Executive Officer and Chairman, for the continued growth and operation of our Company because of his experience in the industry and his personal and business contacts in the PRC. We do not have an employment agreement with Mr. Wang and do not anticipate entering into an employment agreement in the foreseeable future. Although we have no reason to believe that Mr. Wang will discontinue his services with us or Aoxing Pharmaceutical, the interruption or loss of his services would adversely affect our ability to effectively run our business and pursue our business strategy as well as our results of operations. Additionally, Xiaojuan Zhai, our Chief Financial Officer, Zhenghong Wang, our Chief Operating Officer, Yuan Jian, General Manager and Chief Engineer of Aoxing Pharmaceutical, perform key functions in the operation of our business. There can be no assurance that we will be able to retain these officers after the term of their employment contracts expire. The loss of these officers could have a material adverse effect upon our business, financial condition, and results of operations. We do not carry key man life insurance for any of our key personnel nor do we foresee purchasing such insurance to protect against a loss of key personnel.

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

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

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

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

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

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

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

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

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

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

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

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

We face marketing risks.

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

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

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

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

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

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

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

Although patent and intellectual property disputes within the pharmaceutical industry have often been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include the long-term payment of royalties. These arrangements may be investigated by regulatory agencies and, if improper, may be invalidated. Furthermore, the required licenses may not be made available to us on acceptable terms. Accordingly, an adverse determination in a judicial or administrative proceeding or a failure to obtain necessary licenses could prevent us from manufacturing and selling some of our products or increase our costs to market these products. In addition, when seeking regulatory approval for some of our products, we may be required to certify to regulatory authorities, including the SFDA that such products do not infringe upon third party patent rights. Filing a certification against a patent gives the patent holder the right to bring a patent infringement lawsuit against us. Any lawsuit would delay the receipt of regulatory approvals. A claim of infringement and the resulting delay could result in substantial

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

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

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

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Risk Related To the Pharmaceutical Industry

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

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

Aoxing Pharmaceutical initially obtained pharmaceutical products and health food production permits by submitting its manufacturing processes and product tests to the SFDA who verified that its production processes and products met the standards by onsite inspections, review of test results and a determination that the market was not saturated by its products. The production permits are permanent once issued as long as they are renewed by the expiration date. The GMP certificate is valid for a term of five years, the pharmaceutical products production permits are subject to renewal every five years, and the health food production permits are valid for three year terms, and each must be renewed before its expiration, if applicable. Aoxing Pharmaceutical originally obtained its GMP certificate in January 2006, and it is valid until January 23, 2011. The GMP certificate applies to products described as medicinal tablets, granules, capsules, soft capsules, powder, and ointment. If the GMP certificate expires without renewal, Aoxing Pharmaceutical will not be able to continue production of pharmaceutical products, which will cause its operations to terminate. We filed the application to renew the GMP certificate before its expiration date, and SFDA has approved our application and issued its official GMP license on March 29, 2011. It is a common practice in China to have the grace period between the GMP expiry day and new GMP license day. We intend to apply for renewal of these health food production permits prior to expiration. During the renewal process, Aoxing Pharmaceutical will be re-evaluated by the appropriate governmental authorities and must comply with the then prevailing standards and regulations which may change from time to time. In the event that it is not able to renew the certificates, permits and licenses, all or part of its operations may be terminated. Furthermore, if escalating compliance costs associated with governmental standards and regulations restrict or prohibit any part of its operations, it may adversely affect its operation and our profitability.

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

·producing counterfeit medicine;
·producing inferior quality products;

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

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

Our research and development of pharmaceutical products is subject to the regulatory approval of the SFDA. The regulatory approval procedure for pharmaceuticals can be quite lengthy, costly, and uncertain. Depending upon the discretion of the SFDA, the approval process may be significantly delayed by additional clinical testing and require the expenditure of resources not currently available; in such an event, it may be necessary for us to abandon our application. Even where approval of the product is granted, it may contain significant limitations in the form of narrow indications, warnings, precautions, or contra-indications with respect to conditions of use. If approval of our product is denied, abandoned, or severely limited in terms of the scope of products use, it may result in the inability to recoup considerable research and development expenditures. Currently, three of our products, Zushima, Gan Fu Kang and Azithromycin Dispersible Tablets, have pending applications with the SFDA. Phase III clinical testing is occurring for five other products (Shenrong Capsules, Zhixuening Pian, Xiao'aiping Dispersible Tablets, Zhenbao Wan Capsules, and KunLing Wan Capsules), which expects to be completed sometime in 2015 to 2018. After phase III clinical test, these products will be submitted for SFDA approval. If we do not receive timely approval for any of these drugs, then production will be delayed and sales of the products may be adversely affected.

Price control regulations may decrease our profitability.

The laws of the PRC provide for the government to fix and adjust prices. The prices of certain medicines we distribute, including those listed in the Chinese government's catalogue of medications that are reimbursable under the PRC's social insurance program, or the Insurance Catalogue, are subject to control by the relevant state or provincial price administration authorities. The PRC establishes price levels for products based on market conditions, average industry cost, supply and demand and social responsibility. In practice, price control with respect to these medicines sets a ceiling on their retail price. The actual price of such medicines set by manufacturers, wholesalers and retailers cannot historically exceed the price ceiling imposed by applicable government price control regulations. Although, as a general matter, government price control regulations have resulted in drug prices tending to decline over time, there has been no predictable pattern for such decreases. It is possible that additional products may be subject to price control, or that price controls may be increased in the future. To the extent that our products are subject to price control, our revenue, gross profit, gross margin and net income will be affected since the revenue we derive from our sales will be limited and we may face no limitation on our costs. Further, if price controls affect both our revenue and costs, our ability to be profitable and the extent of our profitability will be effectively subject to determination by the applicable regulatory authorities in the PRC.

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

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

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

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

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

Adverse publicity concerning any actual or purported failure to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, or other aspects of our business, whether or not resulting in enforcement actions or the imposition of penalties, could have an adverse effect on our goodwill and could negatively affect our sales and ability to generate revenue. In addition, our consumers' perception of the safety and quality of products and ingredients as well as similar products and ingredients distributed by other companies can be significantly influenced by media attention, publicized scientific research or findings, widespread product liability claims and other publicity concerning our products or ingredients or similar products and ingredients distributed by other companies. Adverse publicity, whether or not accurate or resulting from consumers' use or misuse of our products, that associates consumption of our products or ingredients or any similar products or ingredients with illness or other adverse effects, questions the benefits of our or similar products or claims that any such products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could negatively impact our reputation or the market demand for our products.

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

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

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

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

Risks Related to Doing Business in the PRC

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

Our business operations may be adversely affected by the current and future political environment in the PRC. The PRC has operated as a socialist state since the mid-1900s and is controlled by the PRC's Communist Party. The Chinese government exerts substantial influence and control over the manner in which we and it must conduct our business activities. The PRC has only permitted provincial and local economic autonomy and private economic activities since 1988. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, particularly the pharmaceutical industry, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice. The PRC's economy is in a transition from a planned economy to a market oriented economy subject to five-year and annual plans adopted by the government that set national economic development goals. Policies of the PRC government can have significant effects on the economic conditions of the PRC. The PRC government has confirmed that economic development will follow the model of a market economy.

Under this direction, we believe that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces. While we believe that this trend will continue, there can be no assurance that this will be the case. A change in policies by the PRC government could adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. Although the PRC government has been pursuing economic reform policies for more than two decades, there is no assurance that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting the PRC's political, economic and social life.

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

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

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

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

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

All of our operations are conducted in the PRC and all of our revenue is generated from sales in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that this growth will continue. A slowdown in overall economic growth, an economic downturn, a recession or other adverse economic developments in the PRC could significantly reduce the demand for our products and harm our business. While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth could lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may harm our profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy can lead to a slowing of economic growth. Repeated rises in interest rates by the central bank would likely slow economic activity in the PRC which could, in turn, materially increase its costs and also reduce demand for its products.

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

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

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The fluctuation of the Renminbi may harm your investment.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. According to the website www.oanda.com, as of April 3, 2017, US$1 was equal to RMB 6.88825. As we rely entirely on revenue earned in the PRC, any significant revaluation of the RMB may materially and adversely affect our cash flows, revenue and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into RMB for Aoxing Pharmaceutical's operations, appreciation of the RMB against the U.S. dollar would diminish the value of the proceeds of the offering and this could harm Aoxing Pharmaceutical's business, financial condition and results of operations because it would reduce the proceeds available to us for capital investment in proportion to the appreciation of the RMB. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the RMB; the U.S. dollar equivalent of the RMB we convert would be reduced in proportion to the amount the U.S. dollar appreciates. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar.

Substantial uncertainties exist with respect to the enactment timetable and final content of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 (the "Draft FIL") aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Draft FIL embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Ministry of Commerce is currently soliciting comments on this draft and substantial uncertainties exist with respect to its enactment timetable, final content, interpretation and implementation.

Among other things, the Draft FIL expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company is considered a foreign-invested enterprise, or an FIE. The Draft FIL specifically provides that entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance, treated as a PRC domestic investor provided that the entity is "controlled" by PRC entities and/or citizens. Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a "negative list," to be separately issued by the State Council later. Unless the underlying business of the FIE falls within the negative list, which calls for market entry clearance, prior approval from the government authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the FIE. Under the Draft FIL, VIEs that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the "negative list" the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, the VIEs will be treated as FIEs and any operation in the industry category on the "negative list" without market entry clearance may be considered as illegal.

The provision of services, which we conduct through our VIEs, is currently subject to foreign investment restrictions set forth in the Catalogue of Industries for Guiding Foreign Investment, or the Catalogue, issued by the National

Development and Reform Commission and the Ministry of Commerce that was amended in 2011 and became effective in January 2012. The Draft FIL, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

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

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

Certain of our shareholders who may be subject to the foregoing registration requirement (including certain members of our management) have submitted their registration applications to the relevant SAFE authority as well as notified the local authority where we are domiciled of such applications. We have been advised by such SAFE authority, however, that it is unable to issue SAFE registration due to current internal policy, but may issue a confirmation acknowledging receipt of our applications in lieu thereof, and issue the SAFE registration at a later time when internal policy changes. There is no assurance, however, that we will receive such confirmation or that such confirmation, when issued, would be sufficient for compliance purpose with the SAFE notice. Additionally, we do not know when the internal policy of the relevant SAFE authority will change, if at all, and there is no assurance that when such policy changes, we will be issued SAFE registration. As such, we or our PRC resident shareholders may nevertheless be deemed in violation of SAFE #75 despite our attempt at compliance. In the event that we or our PRC resident shareholders are deemed to be in violation of SAFE #75 despite our attempt at compliance, Shaanxi Biostar could lose the ability to remit monies outside of the PRC and would therefore be unable to pay dividends or make other distributions. Our PRC resident shareholders could be subject to fines, other sanctions and even criminal liabilities under the PRC Foreign Exchange Administrative Regulations promulgated January 29, 1996, as amended.

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

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

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

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

As found in "Item 3 Legal Proceedings", the Company Chairman and Chief Executive Officer, Mr. Ronghua Wang owed personal debts to certain creditors. Under the PRC legal system, since Mr. Ronghua Wang is a major shareholder of the Company, the Courts froze certain assets of the Company in order to prevent those assets from being transferred. While the Company was not a party to the lending arrangement with the creditor, it was involved in the legal disputes as result of its association with the Chairman and Chief Executive Officer. These are legal risks related to conducting business in the PRC that are not likely to exist for companies doing business in the United States. There is no assurance that the Company's assets will not be subject to future disputes as a result of its association to Mr. Ronghua Wang.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners to personal liability and limit our ability to acquire PRC companies or to inject capital into our PRC entities, limit our PRC entities' ability to distribute profits to us or otherwise materially and adversely affect us.

The State Administration of Foreign Exchange ("SAFE"), issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Round-trip Investment via Overseas Special Purpose Vehicles ("SAFE Circular No. 75"), and a series of implementation rules and guidance, requiring PRC residents, including both legal persons and natural persons, to register with the relevant local branch of SAFE before establishing or acquiring control over any company outside of China, referred to as an offshore special purpose company, for the purpose of raising funds from overseas to acquire assets of, or equity interest in, PRC companies. In addition, any PRC resident that is a beneficial owner of an offshore special purpose company is required to amend his or her registration with the local branch of SAFE, with respect to that offshore special purpose company in connection with any increase or decrease in its capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China. Any failure to comply with the above registration requirements could result in our PRC entities being prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to their offshore parent companies, offshore parent companies being restricted in their ability to contribute additional capital into their PRC entities and may also subject the relevant PRC entities and PRC residents to penalties under PRC foreign exchange administration regulations. Any failure or inability by individuals to comply with SAFE regulations may subject us to fines or legal sanctions, such as restrictions on our cross-border investment activities or our direct PRC entities' ability to distribute dividends to, or obtain

foreign-exchange-denominated loans from, our company or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

The approval of the China Securities Regulatory Commission may be required in connection with the global offering, and, if required, we cannot assure you that we will be able to obtain such approval.

On August 8, 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission ("CSRC"), promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors ("M&A Rules"), which became effective on September 8, 2006 and was amended on June 22, 2009. This regulation, among other things, requires offshore special purpose vehicles, or SPVs, formed for the purpose of an overseas listing and controlled by PRC companies or individuals, to obtain CSRC approval prior to listing their securities on an overseas stock exchange. The application of this regulation remains unclear. Our PRC counsel has advised us that, based on their understanding if the current PRC law, rules, and regulations:

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- we established our PRC entities by means of direct investment other than by merger and acquisition of any equity interest or assets of a PRC domestic company owned by PRC companies and/or PRC individuals as defined under the M&A Rules that are our beneficial owners after the effective date of the M&A Rules;
- the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like ours under this Prospectus Supplement are subject to this regulation;
- given that no provision in this regulation clearly classified contractual arrangements as a type of transaction subject to its regulation, we are not required to submit an application to the CSRC for its approval.

Because there has been no official interpretation or clarification of M&A Rules since its adoption, there is uncertainty as to how this regulation will be interpreted or implemented. If it is determined that the CSRC approval is required for the offering, we may face sanctions by the CSRC or other PRC regulatory agencies for failure to seek the CSRC approval for the offering. These sanctions may include fines and penalties on our operations in the PRC, delays or restrictions on the repatriation of the proceeds from the offering into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our PRC entities, or other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospectus, as well as the trading price of the common stock.

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

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

Because our principal assets are located outside of the United States and most of our directors and officers reside outside of the United States, it may be difficult for you to enforce your rights based on U.S. federal securities laws against us and our officers or to enforce U.S. court judgments against us or them in the PRC.

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

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

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

Risks Relating to our Common Stock

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

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

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If we are unable to meet the Nasdaq Stock Market continued listing requirements, our securities may be subject to delisting.

Following the October 2013 transfer, our securities are listed and are trading on the Nasdaq Capital Market under the symbol “BSPM”. The Nasdaq Capital Market is a continuous trading market that operates in substantially the same manner as The Nasdaq Global Market. If we cannot demonstrate compliance with the continued listing requirements, our common stock may then be subject to delisting.

On February 21, 2017, Biostar Pharmaceuticals, Inc. (the “Company”) received a notification letter from Nasdaq Listing Qualifications (“Nasdaq”) advising the Company that, following Zhongyang Shang’s resignation as an independent director of the Company, the Company was not in compliance with Nasdaq’s continued listing requirements set forth in Listing Rule 5605 pertaining to the independent director membership of the Company’s Board and its Audit and Compensation Committees. Pursuant to Listing Rules 5605(b)(1)(A), 5605(c)(4) and 5605(d)(4), the Company is extended a cure period to regain compliance with the foregoing deficiency as follows:

- Until the earlier of the Company’s next annual shareholders’ meeting or February 5, 2018, or
- If the next annual shareholders’ meeting is held before August 4, 2017, then the Company must evidence compliance no later than August 4, 2017 (together, the “Compliance Deadline”).

If the Company does not regain compliance by the Compliance Deadline, the Company’s securities will be subject to delisting. At that time, the Company may appeal the delisting determination to a Hearings Panel. In its February 9, 2017 Current Report on Form 8-K, the Company disclosed Mr. Shang’s departure as a Board and Board committee member due to severe personal health issues. The Company is currently going through the process of considering suitable candidates to fill the vacancy resulting from Mr. Shang’s departure. The Company intends to complete this process in due course and by the Compliance Deadline so as to regain the Company’s compliance with the Nasdaq continued listing requirements.

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

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

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

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

Techniques employed by manipulative short sellers in Chinese small cap stocks may drive down the market price of our common stock.

Short selling is the practice of selling securities that the seller does not own but rather has, supposedly, borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller's best interests for the price of the stock to decline, many short sellers (sometime known as "disclosed shorts") publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. While traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog ("blogging") have allowed many disclosed shorts to publicly attack a company's credibility, strategy and veracity by means of so-called research reports that mimic the type of investment analysis performed by large Wall Street firms and independent research analysts. These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base. Issuers with business operations based in the PRC and who have limited trading volumes and are susceptible to higher volatility levels than U.S. domestic large-cap stocks, can be particularly vulnerable to such short attacks. These short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S., are not subject to the certification requirements imposed by the Securities and Exchange Commission in Regulation AC (Regulation Analyst Certification) and, accordingly, the opinions they express may be based on distortions of actual facts or, in some cases, fabrications of facts. In light of the limited risks involved in publishing such information, and the enormous profit that can be made from running just one successful short attack, unless the short sellers become subject to significant penalties, it is more likely than not that disclosed shorts will continue to issue such reports.

While we intend to strongly defend our public filings against any such short seller attacks, often times we are constrained, either by principles of freedom of speech, applicable state law (often called "Anti-SLAPP statutes"), or issues of commercial confidentiality, in the manner in which we can proceed against the relevant short seller. You should be aware that in light of the relative freedom to operate that such persons enjoy – oftentimes blogging from outside the U.S. with little or no assets or identity requirements – should we be targeted for such an attack, our stock will likely suffer from a temporary, or possibly long term, decline in market price should the rumors created not be dismissed by market participants.

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

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

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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.

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

From time to time, the Company is involved in legal matters arising in the ordinary course of business. Except as set forth in the updated disclosures below, there were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015 and the Company's subsequent public filings. The Company undertakes no obligation to update or revise the information set forth herein, whether as a result of new information, changed circumstances or future events or for any other reason.

On September 1, 2015, Shaanxi Aoxing Biostar Biotech Ltd. was informed by the People's Court of Shaanxi Province (the "Shaanxi Court") that its properties, consisting of three residential properties valued at $0.5 million (RMB 3.3 million) had been transferred to Mr. Lianhe Wang, an individual (not affiliated with the Company) to settle an outstanding personal loan to Ronghua Wang, the Company's Chairman and CEO, in the amount of approximately RMB 5.7 million (USD$0.8 million). It is the Company's understanding that because the corporate seal of Shaanxi Biostar was affixed to the loan agreement between the foregoing parties (which was done at the request of the lender for the sole purpose of Shaanxi Biostar's acknowledging the transaction that involved its Chief Executive Officer, and not for any guarantee, security and/or undertaking or other similar purpose), the Shaanxi Court deemed Shaanxi

Biostar as a co-borrower under this loan arrangement. The foregoing debt was personal debt of Ronghua Wang and no assets of Shaanxi Aoxing Biostar Biotech Ltd. were pledged to secure Ronghua Wang's obligations in connection with such personal loan. Ronghua Wang has not borrowed money from the Company; nor has the Company obtained any proceeds from, guaranteed or secured any of his loans. Subsequently, Shaanxi Biostar was informed by the Shaanxi Court that as a result of Ronghua Wang's inability to service the personal debt in question, Shaanxi Biostar's properties (3 properties totaling 504 sq. meters), valued at RMB 3.3 million (US$0.5 million) had been transferred to Lianhe Wang to satisfy the outstanding debt. Shaanxi Biostar agreed to the foregoing arrangement to avoid further legal costs; Ronghua Wang agreed to compensate the Company for any loss arising from this legal matter. The Company understands that with respect to the properties transferred to Wang Lianhe, Wang Lianhe is willing to return the properties to Shaanxi Biostar if Ronghua Wang satisfies and discharges his personal loan obligations. Ronghua Wang has repaid in full the $0.5 million (RMB 3.3 million) to the Company as compensation for the loss of properties and there are no any material effects on the Company's day-to-day operations as a result of the foregoing events.

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In May 2015, a bank account of Shaanxi Aoxing Pharmaceutical Company Limited was frozen as a result of actions by Bai Yun, an individual lender (not affiliated with the Company), in his attempt to collect the outstanding balance on the personal loan due to him from Ronghua Wang in the amount of RMB 2.67 million (USD$0.44 million), which personal loan was in default. The foregoing debt was personal debt of Ronghua Wang dating to 2010, which Ronghua Wang obtained to acquire a real estate parcel; no assets of Shaanxi Aoxing Pharmaceutical Company Limited were pledged to secure Ronghua Wang's obligations in connection with such personal loan. Also, the corporate seal of Shaanxi Biostar was affixed to the loan agreement between the foregoing parties (which was done at the request of the lender for the sole purpose of Shaanxi Biostar's acknowledging the transaction that involved its Chief Executive Officer, and not for any guarantee, security and/or undertaking or other similar purpose). As of June 2014, Wang Ronghua owed Bai Yun RMB 5.17 million (or US$0.8 million representing principal and accrued interest on the original loan. Subsequently, Ronghua Wang commenced a lawsuit against the seller of the real estate in question and, in December 2014, secured a judgment in the amount of RMB 17 million against the seller to recover the purchase price. At approximately the same time, Bai Yun initiated a legal action against Ronghua Wang to collect on the outstanding debt. The parties to the dispute engage in settlement negotiations and on January 9, 2015, the court finalized the settlement arrangement between the parties. Ronghua Wang has been attempting to collect on his judgment against the seller, but so far he has not been successful, which, in turn, resulted in his inability to honor the terms of his settlement arrangement with Bai Yun. In May 2015, Bai Yun sought to foreclose on the Company's land and bank account to satisfy the outstanding debt and in February 2016, the court attempted to force a sale of the Company's 2,674 sq. meter parcel which is currently idle, at an auction. In order to prevent such auction sale, Ronghua Wang paid RMB 2.5 million (US$0.36 million) to Bai Yun in March 2016 which amount was applied to the outstanding debt; following this payment, Bai Yun petitioned the court to terminate the auction sale. The title of the buildings and land use rights subject of this legal matter are currently seized by the court, but have not been transferred to the lender. As of December 31, 2016, Ronghua Wang was negotiating settlement terms of the remaining balance on the loan and had partially repaid the outstanding balance of the loan, thus avoiding the Company's land use rights and buildings being seized and auctioned with proceeds used to settle this debt. If he pays off the remaining balance of the loan to Bai Yun, it is the Company's understanding that the properties and land will be immediately released. As of the date of this report, the matter has not been resolved and the remaining balance owed to Bai Yun still outstanding; accordingly, the properties and land remain seized by the courts.

Following Nasdaq Listing Qualifications staff's comments on the Company's disclosures relating to the foregoing matters set forth in its Annual Report on Form 10-K for the period ended December 31, 2015, the Company provided a full set of responses and supplemental materials for the staff's review and consideration. There is also no assurance that Ronghua Wang will be able to repay his personal debts in full before his creditor(s) take any other further legal action. If the remaining balance is not repaid, the Company's property and assets in question will remain in Ronghua Wang's creditor(s)' possession until the debt is discharged. If and to the extent such properties are not returned to the Company or the Company does not obtain timely and adequate compensation for such transfers, the Company's business and operations may suffer adverse consequences. On October 10, 2016, the Nasdaq Listing Qualifications staff sent a follow up letter to the Company regarding the background and circumstances as well as involvement and actions by the Company's Board of Directors regarding the use of Company assets, and internal controls governing the use of Company stamps and chops related to the legal proceedings described above. The Company provided its responses to the follow-up letter to Nasdaq on October 28, 2016 with details surrounding the legal proceedings as well as the Board involvement, or lack thereof, to the loan agreements entered into by Mr. Ronghua Wang that have resulted in the seizure of certain of the Company assets. There is no assurance that the Nasdaq staff will not continue its inquiry resulting in an action that may have adverse effects on the Company's continued listing on the Nasdaq Stock Market.

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 2016 and 2015. The quotations reflect inter-dealer prices, without retail markup, markdown, or commissions, and may not represent actual transactions.

Quarter Ended	High	Low
December 31, 2015	$2.94	$2.80
September 30, 2015	$5.04	$4.90
June 30, 2015	$7.70	$7.07
March 31, 2015	$8.89	$8.19
December 31, 2016	$3.10	$2.91
September 30, 2016	$4.73	$3.34
June 30, 2016	$5.10	$4.35
March 31, 2016	$2.07	$1.88

On March 28, 2017, the closing price of the Company's common stock was $2.15.

Holders

As of December 31, 2016, we had 22 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 its telephone number is (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. Except as previously reported in the Company's public filings made with the SEC, the Company issued no unregistered shares of Common stock during the three months ended December 31, 2016. The Company did not repurchase any of its equity securities during the quarter ended December 31, 2016.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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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 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").

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 drug portfolio following the completion of this acquisition. The Company completed this acquisition on October 25, 2011.

In April 2013, Aoxing Pharmaceutical executed a supplemental agreement to the Weinan Share Transfer Agreement (the "Weinan Supplemental Agreement") with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Weinan Share Transfer Agreement due to incomplete re-registration. The Company acquired ownership of the 13 drug approval numbers for which reregistration has been completed in April 2013. The aggregate purchase price was approximately $10.2 million, consisting of approximately $8.8 million in cash and 1,602,564 shares of the Company's common stock, valued at approximately $1.4 million.

Since 2013, we improved our customer portfolio and provided subcontracting services to hospital which provides the prescription. For the years ended 31 December 2016 and 2015, the subcontracting services income from the hospital contributed $0 and $12.4 million, respectively, to our revenue. We currently manufacture and sell twelve over-the-counter ("OTC") medications and seventeen prescription-based pharmaceuticals 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 six pharmaceutical products. Our best-selling product, Xin Ao Xing Oleanolic Acid Capsule ("Xin Aoxing Capsule"), is a state-approved OTC drug for treatment of Hepatitis B.

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October 2016 Registered Offering

On October 11, 2016, the Company and certain institutional investors entered into a securities purchase agreement (the "Purchase Agreement") in connection with an offering ("Offering") pursuant to which the Company agreed to sell, and the investors agreed to purchase 425,000 shares of the Company's common stock and warrants to purchase up to 212,500 shares of the Company's common stock, for aggregate gross proceeds, before deducting fees to the placement agent and other estimated offering expenses payable by the Company, of approximately $1.91 million. The warrants are exercisable beginning six months and a day after the closing of this offering and expire three and a half years from the date of issuance at an exercise price of $5.55 per share. The exercise price and number of shares underlying the warrants are subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. The exercisability of the warrants may be limited if, upon exercise, the holder thereof or any of its affiliates would beneficially own more than 4.9% of the Company's common stock. The net proceeds from the offering will be used for working capital and other general corporate purposes. FT Global Capital, Inc. served as the placement agents for the offering. The Offering was effected as a takedown off the Company's shelf registration statement on Form S-3 (File No. 333-192963), which became effective on January 3, 2014, pursuant to a prospectus supplement to be filed with the Securities and Exchange Commission.

Results of Operations

Net Sales

The following table illustrates our sales results for the years ended December 31, 2016 and 2015.

	Year ended December 31,		Decrease due to changes in		
	2016	2015	Product offerings	Sales volume	Sales price
Aoxing Pharmaceutical Products					
Xin Aoxing Capsule	$-	$9,076,174	$-	$(9,076,174)	$ -
Other Aoxing Pharmaceutical products	-	3,101,887	-	(3,101,887)	-
Sub-total	-	12,178,061	-	(12,178,061)	-
Shaanxi Weinan products	2,384,492	4,151,872	-	(1,767,380)	-
Hospital products	-	12,438,549	-	(12,438,549)	-
Total gross sales	$2,384,492	$28,768,482	$-	$(26,383,990)	$ -
Sales discount	-	(1,638,873)			
Total net sales	$2,384,492	$27,129,609			

For the year ended December 31, 2016, total net sales decreased by approximately $24.7 million or 91.2% compared to the year ended December 31, 2015. The decrease was mainly due to the production suspension of the Company's Aoxing factory while the GMP certificates were being renewed.

The Company had no sales on all Aoxing Pharmaceutical Products in the year ended December 31, 2016 as Aoxing Pharmaceutical temporarily stopped production to conduct maintenance of its production lines in order to renew its GMP certificates which is expected to be renewed in the first half of 2017 at which time the production will resume. If the Company was unable to resume production, then it might become insolvent.

Sales of Shaanxi Weinan's products decreased substantially during the year ended December 31, 2016 due to replacing production equipment to comply with government's environmental protection requirement. We currently anticipate that the production of Shaanxi Weinan products will resume in May 2017.

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Cost of sales

The following table summarizes our cost of goods sold for the years ended December 31, 2016 and 2015:

	Year ended December 31,		Decrease due to changes in		
	2016	2015	Product offering	Sales volume	Product cost
Aoxing Pharmaceutical Products					
Xin Aoxing Capsule	$-	$1,570,515	$-	$(1,570,515)	$ -
Other Aoxing Pharmaceutical products	-	2,327,039	-	(2,327,039)	-
Sub-total	-	3,897,554	-	(3,897,554)	-
Shaanxi Weinan products	1,469,318	2,283,613	-	(814,295)	-
Hospital products	-	9,844,377	-	(9,844,377)	-
Medical device	-	-	-	-	-
Total cost of sales	$1,469,318	$16,025,544	$-	$(14,556,226)	$ -

For the year ended December 31, 2016, cost of sales decreased by approximately $14.6 million or 90.8%, compared to the year ended December 31, 2015. This decrease in costs of sales is mainly due to a proportional decrease in sales volume.

Cost margin of our hospital products was 0% and 79.1% for the years ended December 31, 2016 and 2015, respectively. The 0% cost margin was a result of no production and no sales in the Company's Aoxing factory.

Gross Profit

The following table summarizes our gross profit for the years ended December 31, 2016 and 2015:

	Year ended December 31,					
	2016			2015		
	Gross Profit	Product Gross Margin %		Gross Profit	Product Gross Margin%	
Aoxing Pharmaceutical Products						
Xin Aoxing Capsule	$-	-	%	$7,505,659	82.7	%
Other Aoxing Pharmaceutical products	-	-	%	774,848	25.0	%
Sub-total	-	-	%	8,280,507	68.0	%
Shaanxi Weinan products	915,174	38.4	%	1,868,259	45.0	%
Hospital products	-	-	%	2,594,172	20.9	%
Medical device	-	-	%	-	-	%
Sales discount	-	-	%	(1,638,873)	-	%

Total gross profit	$915,174	38.4	%	$11,104,065	40.9	%

Gross profit decreased by approximately $10.2 million or 91.8% for the year ended December 31, 2016, as compared to the year of 2015. The decrease in gross profit was due primarily to the decrease in sales of all products.

The overall gross profit margin decreased to 38.4% for the year ended December 31, 2016 from 40.9% for the year ended December 31, 2015. The decline in gross profit margin during the year 2016, as compared to the year 2015 was the result of the no sales thus no gross profit from Aoxing Pharmaceutical Products and hospital products.
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Operating Expenses

	Year Ended December 31, 2016		2015		
	Operating expenses	% of net sales	Operating expenses	% of net sales	% change
Advertising expenses	$-	- %	$3,803,780	14.0 %	(100.0 %)
Selling expenses	1,169,416	49.0 %	4,835,398	17.8 %	(75.8 %)
General and administrative expenses	2,431,462	102.0%	4,648,902	17.1 %	(47.7 %)
Research and development expenses	1,144,044	48.0 %	4,020,909	14.8 %	(71.5 %)
(Recovery of) provision for doubtful debts	(265,486)	n/a %	4,666,730	17.2 %	(100.0 %)
Impairment loss on loan receivables	-	- %	8,845,999	32.6 %	(100.0 %)
Impairment loss on prepaid lease payment	-	- %	1,066,115	3.9 %	(100.0 %)
Impairment loss on intangible assets	-	- %	2,973,796	11.0 %	(100.0 %)
Total operating expenses	$4,479,436	187.9%	$34,861,629	128.5%	87.2 %

Total operating expense decreased by approximately $30.4 million or 87.2% for the year ended December 31, 2016, as compared to the year ended December 31, 2015. The decrease is attributable to the decrease in all operating expenses, the lack of provision for doubtful debts and no impairment losses on various assets.

Advertising expenses accounted for 0% and 14.0% of our total net sales for the years ended December 31, 2016 and 2015. The lack of advertising expenses in 2016 was mainly due to no sales activities in Aoxing Pharmaceutical Products and hospital products and decreased sales activity in Weinan products.

Selling expenses consist mostly of sales salaries, commission and other selling expenses. Overall decrease was approximately $3.7 million or 75.8%. The decrease in selling expenses was a result of the above mentioned no sales activities in Aoxing Pharmaceutical Products and hospital products and decreased sales activity in Weinan products.

General and administrative expenses consist of personnel expenses, amortization and depreciation, professional fees and other general and administrative expenses. During the year ended December 31, 2016, general and administrative expenses were approximately $2.4 million. The decrease in general and administrative expenses was mainly due to no loss from land disposal, decrease in tax as a result of lower sales, and lower amortization, partially offset by higher legal fee related to the October 2016 security offering.

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 $1.1 million and $4.0 million in research and development expenses for the years ended December 31, 2016 and 2015, respectively.

We make periodical assessment for possible impairment on various assets. At December 31, 2015, we determined some of our assets were impaired and accordingly impairment losses were recorded. For the year ended December 31, 2016, no impairment was necessary for our assets.

Provision for Income Taxes

For the year ended December 31, 2016, our deferred tax expense was approximately $2.7 million. For the year ended December 31, 2015, we had an income tax expense of approximately $1.3 million. The uniform corporate income tax rate is 25% in China. The calculation of effective tax rate includes the operating results of all our subsidiaries,

including the U.S. corporate company. As of December 31, 2016, valuation allowance of approximately $10.0 million was provided in the consolidated financial statements.

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Liquidity and Capital Resources

There is substantial doubt that the Company will continue as a going concern. As of December 31, 2016, we had cash and cash equivalents of approximately $0.2 million and net working capital of approximately $1.7 million. Lower production capacity from preparation of GMP certification renewal at our Aoxing facility led to weak results in generating cash flows during the fiscal year. We have been working with the bank to extend the outstanding loans, trying to collect as much account receivables as possible, and restoring production volumes to regular levels; however, as of the time of this filing, we cannot provide any assurance that we will be able to successfully extend our loans and restore all production to regular volumes. The Company's short-term bank loan is due on demand and the Company is in negotiations to extend this loan. As of December 31, 2016, 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.

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 2017. 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 more bank borrowing, if available, as well as capital raises. There is no assurance that we will find such funding on acceptable terms, if at all.

Net cash provided by operating activities for the year ended December 31, 2016 was approximately $4.9 million. This was primarily due to our net loss of approximately $5.7 million, adjusted by non-cash related expenses including depreciation and amortization of approximately $1.1 million, and deferred tax expense of approximately $2.7 million, then increased by favorable changes in working capital of approximately $7.3 million. The favorable changes in working capital were mainly due to decrease in accounts receivable offset by decrease in accounts and other payables.

Net cash used in investing activities for the year ended December 31, 2016 was approximately $6.4 million, primarily consisting of approximately $5.1 million paid on intended acquisition and $1.2 million paid for acquisition of intangible assets.

Net cash provided by financing activities for the year ended December 31, 2016 was approximately $1.4 million, consisting of approximately $1.7 million from issuing stocks and warrants offset by $0.3 million repayment for short term bank loans.

Critical Accounting Policies

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

Allowance for Doubtful Accounts

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

to make payments, additional allowances may be required. Such differences could be material and could significantly impact cash flows from operating activities.

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 to 120 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.

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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 for share options and Binominal Model for warrants and is recognized as expense over the requisite service period. The BSM model and Binominal Model requires various highly judgmental assumptions including expected volatility and option life. Changes in these assumptions could materially impact the financial position and results of operations.

Valuation of Intangibles

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

reduced value, which could be material.

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").

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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.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2016:

	Payments due by period ($ million)				
	Total	Within 1 year	1-3 years	3-5 years	>5 years
Research and development contracts	$0.7	$ 0.7	$ -	-	-
Purchase of a health product manufacturer	3.2	3.2	-	-	-
Acquire a project for mining rights, mining assets and a mining company	0.2	0.2	-	-	-
Construction contract for improvement work	0.1	0.1	-	-	-
Total contractual obligations	$4.2	$ 4.2	$ -	-	-

Inflation

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

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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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Biostar Pharmaceuticals, Inc. and its subsidiaries (the "Company") as of December 31, 2016 and 2015 and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the years 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 audits 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 consolidated 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 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. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 positions of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the Company signed letters of intent in November 2013 and December 2014 to acquire 100% interests in a health product manufacturer and a company in the PRC, which is principally engaged in supply of raw materials to produce health products respectively. Deposits for these intended acquisitions have been paid and included in the "Deposits" under Non-current assets and these intended acquisitions are still in progress as of December 31, 2016.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more described in Note 2 "Liquidity and Going Concern", the Company had experienced a substantial decrease in sales volume which resulting a net loss for the year ended December 31, 2016. Also, part of the Company's buildings and land use rights are subject to litigation between an independent third party and the Company's Chief Executive Officer, and the title of these buildings and land use rights has been seized by the PRC Courts so that the Company cannot be sold without the Court's permission. In addition, as discussed in Note 5 "Short-term Bank Loans" to the consolidated financial statements, the Company already violated its financial covenants included in its short-term bank loans. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Mazars CPA Limited

Certified Public Accountants
Hong Kong
April 13, 2017

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED BALANCE SHEETS

	AS OF DECEMBER 31,	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$173,290	$38,898
Accounts receivable, net	6,741,454	15,814,880
Inventories	166,564	234,660
Deposits and other receivables	171,062	2,591
Value-added tax receivable	41,462	-
Income tax recoverable	71,292	76,280
Total Current Assets	7,365,124	16,167,309
Non-current Assets		
Deposits	21,148,284	16,099,958
Deferred tax assets, net	2,515,272	5,406,593
Property and equipment, net	5,866,612	6,810,933
Intangible assets, net	5,607,146	6,878,787
Total Non-Current Assets	35,137,314	35,196,271
Total Assets	$42,502,438	$51,363,580
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts and other payables	$2,842,142	$4,153,411
Short-term bank loans	2,325,643	2,773,199
Valued-added tax payable	-	112,629
Warrants liability	455,476	59,202
Total Current Liabilities	5,623,261	7,098,441
Commitment and contingencies		
Stockholders' Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized, 2,637,188 issued and outstanding as of December 31, 2016 and 2,210,913 shares issued and outstanding as of December 31, 2015	2,637	2,210
Additional paid-in capital	31,382,467	30,316,774
Statutory reserve	7,354,413	7,354,413
(Accumulated deficit) Retained earnings	(2,540,991)	3,157,394
Accumulated other comprehensive income	680,651	3,434,348
Total Stockholders' Equity	36,879,177	44,265,139
Total Liabilities and Stockholders' Equity	$42,502,438	$51,363,580

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

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

	FOR THE YEARS ENDED DECEMBER 31,	
	2016	2015
Sales, net	$2,384,492	$27,129,609
Cost of sales	1,469,318	16,025,544
Gross profit	915,174	11,104,065
Operating expenses:		
Advertising expenses	-	3,803,780
Selling expenses	1,169,416	4,835,398
General and administrative expenses	2,431,462	4,648,902
Research and development expenses	1,144,044	4,020,909
Impairment loss on intangible assets	-	2,973,796
(Recovery of) provision for doubtful accounts receivable	(265,486)	4,666,730
Impairment loss on loan receivables	-	8,845,999
Impairment loss on prepaid lease payment	-	1,066,115
Total operating expenses	4,479,436	34,861,629
Loss from operations	(3,564,262)	(23,757,564)
Other income (expense)		
Interest income	1,165	8,895
Interest expense	(206,195)	(283,596)
Fair value adjustment on warrants	227,106	324,093
Other income (expense), net	496,855	(84,544)
Total other income (expense), net	518,931	(35,152)
Loss before income taxes	(3,045,331)	(23,792,716)
Provision for income tax	2,653,054	1,319,846
Net Loss	$(5,698,385)	$(25,112,562)
Foreign currency translation adjustment	(2,753,697)	(2,957,650)
Comprehensive loss	$(8,452,082)	$(28,070,212)
Loss per share		
Basic	$(2.5)	$(11.4)
Diluted	$(2.5)	$(11.4)
Weighted average number of common shares outstanding		
Basic	2,297,336	2,210,913
Diluted	2,297,336	2,210,913

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

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock Shares	Amount	Additional Paid-in Capital	Deferred Stock-Based Compensation	Statutory Reserve	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, December 31, 2014	2,210,913	$2,210	$30,316,774	$ -	$7,354,413	$28,269,956	$6,391,998	$72,335,351
Net loss	-	-	-	-	-	(25,112,562)	-	(25,112,562)
Foreign currency translation adjustment	-	-	-	-	-	-	(2,957,650)	(2,957,650)
Balance, December 31, 2015	2,210,913	$2,210	$30,316,774	$ -	$7,354,413	$3,157,394	$3,434,348	$44,265,139
Balance, December 31, 2015	2,210,913	$2,210	$30,316,774	$ -	$7,354,413	$3,157,394	$3,434,348	$44,265,139
Shares issuance in registered offering	426,275	427	1,065,693	-	-	-	-	1,066,120
Net loss	-	-	-	-	-	(5,698,385)	-	(5,698,385)
Foreign currency translation adjustment	-	-	-	-	-	-	(2,753,697)	(2,753,697)
Balance, December 31, 2016	2,637,188	$2,637	$31,382,467	$ -	$7,354,413	$(2,540,991)	$680,651	$36,879,177

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

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(5,698,385)	$(25,112,562)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income tax expense	2,653,054	1,332,951
Depreciation and amortization	1,142,538	2,320,195
(Recovery of) provision for doubtful accounts	(265,486)	4,666,730
Recognition of deferred research and development expenses	-	4,020,909
Impairment loss on intangible assets	-	2,973,796
Impairment loss on loan receivable	-	8,845,999
Impairment loss on prepaid lease payment	-	1,066,115
Loss on disposal of property, plant and equipment	-	738,834
Warrants liability	(227,106)	(324,093)
Changes in operating assets and liabilities:		
Accounts receivable	8,669,935	5,448,178
Inventories	55,148	420,584
Deposits and other receivables	(176,293)	392,425
Accounts payable and accrued expenses	(1,087,350)	(602,958)
Value-added tax payable	(153,390)	(309,890)
Net cash provided by operating activities	4,912,665	5,877,213
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-	(59,475)
Deposit paid for intended acquisitions - Notes 3(c), 3(d) and 3(e)	(6,378,136)	(8,122,236)
Receipt from loan receivable	-	804,182
Net cash used in investing activities	(6,378,136)	(7,377,529)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term bank loans	(278,315)	(160,836)
Proceeds from stock issuance and warrants	1,689,500	-
Net cash provided by (used in) financing activities	1,411,185	(160,836)
Effect of exchange rate changes on cash and cash equivalents	188,678	14,896
Net increase (decrease) in cash and cash equivalents	134,392	(1,646,256)
Cash and cash equivalents, beginning balance	38,898	1,685,154
Cash and cash equivalents, ending balance	$173,290	$38,898
SUPPLEMENTAL DISCLOSURES:		
Interest received	$1,264	$8,896
Interest paid	$(37,807)	$(133,618)

The accompanying notes are an integral part of these financial statements.
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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - ORGANIZATION AND NATURE OF OPERATIONS

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 2,833,187 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.

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

The Agreements dated July 9, 2010 were merely replacement of the Agreements dated November 1, 2007 and therefore, there was no significant change in the contractual terms between the Agreements dated July 9, 2010 and November 1, 2007. The then 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.

Following the change in registered owners of Aoxing Pharmaceutical on May 24, 2013, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on May 24, 2013.

The Agreements dated May 24, 2013 are merely replacements of the Agreements dated July 9, 2010 and therefore, there is no significant change in the contractual terms between the Agreements dated May 24, 2013, 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 May 23, 2013. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Following the change in registered owners of Aoxing Pharmaceutical on October 29, 2014, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on October 29, 2014.

The Agreements dated October 29, 2014 are merely replacements of the Agreements dated May 24, 2013 and therefore, there is no significant change in the contractual terms between the Agreements dated October 29, 2014, May 24, 2013, 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 October 29, 2014. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Following the change in registered owners of Aoxing Pharmaceutical on May 11, 2015, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on May 11, 2015.

The Agreements dated May 11, 2015 are merely replacements of the Agreements dated October 29, 2014 and therefore, there is no significant change in the contractual terms between the Agreements dated May 11, 2015, October 29, 2014, May 24, 2013, 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 May 11, 2015. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

The Agreements provide Shaanxi Biostar with control over Aoxing Pharmaceutical as defined by Accounting Standards Codification ("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 (the "Weinan 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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In April 2013, Aoxing Pharmaceutical executed a supplemental agreement to the Weinan Share Transfer Agreement (the "Weinan Supplemental Agreement") with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Weinan Share Transfer Agreement due to incomplete re-registration. The Company acquired ownership of the 13 drug approval numbers for which re-registration has been completed in April 2013. The aggregate purchase price was approximately $10.2 million, consisting of approximately $8.8 million in cash and 228,938 shares (after the one-for-seven reverse split of the issued and outstanding common stock of the Company effective on February 4, 2016) of the Company's common stock, valued at approximately $1.4 million.

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").

Liquidity and Going Concern

As of December 31, 2016, we had $173,290 of cash and working capital of $1,741,863. For the year ended December 31, 2016, we incurred a net loss of $5,698,385 and net cash provided by operating activities of $4,912,665. We generated cash flow from operations even though we incurred a net loss as (1) we collected outstanding receivables from our trade debtors; and (2) our net loss includes certain non-cash expenses that are added back to our cash flow from operations as shown on our consolidated statements of cash flows.

We had experienced a substantial decrease in sales volume of all Aoxing Pharmaceutical Products due to the temporarily suspension of production to conduct maintenance of its production lines to renew its GMP certificates from 2015. While our production levels of Shaanxi Weinan products, being sold to a single customer as detailed in Note 13, helped to offset the substantial decrease in our sales volume, our sales volume continued to remain at the present decreased levels. In addition, for the upgrade of the production facilities, the operation of Shaanxi Weinan was temporarily suspended since December 2016. There is no assurance that the production lines at Aoxing Pharmaceutical will resume and the renewal of GMP certificates will occur when anticipated, or even if they are renewed, we will be able to return to the production levels as anticipated. Our inability to regain our production levels as anticipated may have material adverse effects on our business, operations and financial performance, and the Company may become insolvent. In addition, the Company already violated its financial covenants included in its short-term bank loans as discussed in Note 5 "Short-term Bank Loans".

During 2015, as a result of outstanding personal debts of the Chief Executive Officer, Mr. Ronghua Wang, one of the Company's bank accounts was frozen, title of three residential properties of the Company had been transferred and resulted in a loss of approximately $0.5 million (RMB 3.3 million), and certain buildings and land use rights are currently seized by the court but have not been transferred to the lender. The seized buildings and land use rights have been included in property and equipment and intangible assets respectively in the Company's Consolidated Balance Sheets at December 31, 2016 and 2015. In February 2016, the court attempted to force a sale of the Company's land use rights and buildings. As of December 31, 2016, Mr. Ronghua Wang had fully repaid the outstanding balance of the loan, thus the creditor petitioned the court to terminate the auction sale. Mr. Ronghua Wang has repaid approximately $0.5 million (RMB 3.3 million) to the company to make good the loss recognized in 2015. Such cash

collection is included in “other income” for year ended December 31, 2016. The Company has disclosed the above legal proceedings related to the Company to the best of its knowledge. Under the current PRC legal practice, there is also no assurance that there will be no other cases that would put the Company’s properties at risk.

Although the Company has net current assets and net assets of US$1,741,863 and US$36,879,177 respectively as of December 31, 2016 to meet its obligations, the factors discussed above raise substantial doubt as to our ability to continue as a going concern. Based on our current plans for the next twelve months from the issuance of the financial statement, that is through April 2018, we anticipate that the operation of Aoxing Pharmaceutical and Shaanxi Weinan will be resumed in the first half of 2017 and the sales of their pharmaceutical products will be the primary organic source of funds for future operating activities in 2017. In addition, we expect that the acquisition and production of the new drug permit will be completed in the second half of 2017, together with the launching of the new product “Easy Breathing”, it will bring additional revenue and generate profits in the coming future. Currently, the Company is able to collect outstanding accounts and other receivables to meet its debt obligations; we may also try to procure bank borrowing, if available, as well as capital raises through public or private offerings of its shares and warrants. There is no assurance that we will find such funding on acceptable terms, if at all. The accompanying consolidated financial statements do not include any adjustments that might result from these uncertainties.

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We anticipate that the new topical health product called “Easy Breathing” will be launched for sale in 2017. The product was developed by the Company’s research and development team over the past 3 years. The product is designed to have effects of relieving stuffy nose, inhibiting nasal bacteria and viruses, and mitigating effects on the inflammation of nasal mucosa. It will be manufactured, distributed and sold in China. We expect to sell approximately 400,000 units within the next 2 years, which is expected to yield approximately $7.2 million (RMB 50 million) and improve our cash flow position.

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 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 ASC 220, Comprehensive Income. Foreign exchange transaction gains and losses are reflected in the statement of operations and comprehensive income. For the years ended December 31, 2016 and 2015, the foreign currency translation adjustment to the Company's other comprehensive loss were $2,753,697 and $2,957,650, respectively.

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.

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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, 2016 and 2015, 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 provisions 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.

As of December 31, 2016 and 2015, the doubtful debt provision was approximately $3.2 million and $4.7 million, respectively.

Reverse Stock Split

On February 4, 2016, the Company effectuated a one-for-seven reverse split of its common stock; the Company's stockholder's equity, information on a number of shares and loss per share has been retroactively restated to the first period presented. See Note 6(a).

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, 2016	December 31, 2015
Raw materials	$164,985	$164,352
Work in process	-	51,041
Finished goods	1,579	19,267
	$166,564	$234,660

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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, 2016	December 31, 2015
Buildings	$2,358,423	$2,548,537
Building improvements	5,105,612	5,517,178
Machinery & equipment	1,098,843	1,187,421
Furniture & fixtures	49,224	53,192
Vehicle	103,368	111,701
Construction in progress	446,973	483,004
	9,162,443	9,901,033
Less: Accumulated depreciation	(3,295,831)	(3,090,100)
	$5,866,612	$6,810,933

As set out in Note 5, buildings with carrying value of approximately $1.1 million and $1.2 million as of December 31, 2016 and 2015 respectively were pledged to a local bank in PRC as part of security for a short term bank loan facilities granted to the Company.

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. The Company's land use rights will expire between 2053 and 2056. The Company's proprietary technologies, include drug approvals and permits. 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,	December 31,

	2016	2015
Land use rights	$2,863,154	$3,083,608
Proprietary technologies	14,634,737	16,065,254
	17,497,891	19,148,862
Less: Accumulated amortization and impairment	(11,890,745)	(12,270,075)
	$5,607,146	$6,878,787

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The estimated future amortization expenses related to intangible assets as of December 31, 2016 are as follows:

Years Ending December 31,	
2017	$1,061,451
2018	1,061,451
2019	1,001,071
2020	107,441
2021	68,185
Thereafter	$2,307,547

As set out in Note 5, land use right with carrying value of approximately $2.1 million and $2.5 million as of December 31, 2016 and 2015 respectively were pledged to a local bank in PRC as part of security for a short term bank loan facilities granted to the Company.

Long-Lived Assets

The Company adopted 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.

Fair Value of Financial Instruments

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.

The Company applies the provisions of ASC 820-10, Fair Value Measurements and Disclosures. ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. For certain financial instruments, including cash and cash equivalents, loan receivable, and short-term bank loans, the carrying amounts approximate fair value due to their relatively short maturities. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, Distinguishing Liabilities From Equity, and ASC 815, Derivatives and Hedging. Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of

operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrant are valued using the Binominal Model.

The Company uses Level 3 inputs for its valuation methodology for the fair value of warrant.

The binomial lattice relies on the following Level 3 inputs: (1) expected volatility of the Company's common stock; and (2) risk free rate which is based on daily treasury yield curve rates as published by U.S. Department of the Treasury. The expected volatility of the Company's common stock is estimated from the historical volatility of daily returns in the Company's common stock price.

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The following tables present the estimated fair value of the following financial assets and liabilities of the Company:

At December 31, 2016:

	Carrying amount			
	Level 1	Level 2	Level 3	Estimated fair value
Financial assets				
Carried at (amortized) cost:				
Cash and cash equivalents	$-	$173,290	$ -	$173,290

	Carrying amount			
	Level 1	Level 2	Level 3	Estimated fair value
Financial liabilities				
Carried at (amortized) cost:				
Short-term bank loans	$-	$ -	$2,325,643	$2,325,643
Carried at fair value:				
Warrants liability	-	-	455,476	455,476
	$-	$ -	$2,781,119	$2,781,119

At December 31, 2016:

	Carrying amount			
	Level 1	Level 2	Level 3	Estimated fair value
Financial assets				
Carried at (amortized) cost:				
Cash and cash equivalents	$-	$38,898	$ -	$ 38,898

	Carrying amount			
	Level 1	Level 2	Level 3	Estimated fair value
Financial liabilities				
Carried at (amortized) cost:				
Short-term bank loans	$-	$ -	$2,773,199	$2,773,199
Carried at fair value:				
Warrants liability	-	-	59,202	59,202
	$-	$ -	$2,832,401	$2,832,401

Warrants Liability	
Value at December 31, 2015	$59,202
Warrants liability at issuance in October 2016	623,380
Fair value adjustment	(227,106)
Value at December 31, 2016	$455,476

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At December 31, 2016, the fair value of the warrants liability, which are recognized as level 3 financial instruments, were calculated using the binomial model that included the following inputs: stock price of the underlying asset of $2.93, an exercise price of $5.55 expected volatility of 124.95%, risk free rate of 1.47% and will be expired after 3.3 years. The change in fair value was recognized on the Company's statement of operations during the year ended December 31, 2016.

In accordance with ASC-820-10-50-2(g), the Company has performed a sensitivity analysis of the outstanding warrants of the Company which are classified as level 3 financial instruments. The Company recalculated the value of warrants by applying a +/- 5% changes to the input variables in the binomial model that vary overtime, namely, the volatility and the risk free rate. A 5.0% decrease in volatility would decrease the value of the warrants to $15,725; a 5.0% increase in volatility would increase the value of the warrants to $15,087. A 5.0% decrease or increase in the risk free rate would not have materially changed the value of the warrants; the value of the warrants is not strongly correlated with small changes in interest rates.

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 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 and sales discounts.

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.

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, 2016 and 2015, the Company recognized no stock-based compensation.

Share Warrants

In accordance with ASC815, Derivatives and Hedging, share warrants with term of down-round provision are initially recognized at fair value at grant date as a derivative liability. At each reporting period date, the fair value of the share warrants will be re-measured and the fair value change will be reported as gain/loss in the Consolidated Statements of Operations and Comprehensive Income.

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, 2016 and 2015, the Company incurred advertising expense of approximately $0 and $3.8 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").

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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.

Loss per Share

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

Diluted loss 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 loss 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. All of the Company's outstanding stock options (Note 6(c)) and warrants (Note 6(b)) were not included in the diluted net loss per share calculation because they were out of the money and considered antidilutive. See "Note 8 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 loss and foreign currency translation adjustments.

Statement of Cash Flows

In accordance with 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

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.

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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.

Recent accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update ASU No. 2014-09, “Revenue from Contracts with Customers”, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU 2014-09 will be effective for the Company beginning in its first quarter of 2019, and early adoption is permitted. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”); and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the “new revenue standards”). The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company currently expects to adopt the new revenue standards in its first quarter of 2018 utilizing the full retrospective transition method. The adoption of the new revenue standards is not expected to have any material impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update ASU No. 2015-02, “Consolidation” (Topic 810). ASU 2015-02 changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation mode. ASU 2015-02 affects the following areas: (1) Limited partnerships and similar legal entities. (2) Evaluating fees paid to a decision maker or a service provider as a variable interest. (3) The effect of fee arrangements on the primary beneficiary determination. (4) The effect of related parties on the primary beneficiary determination. (5) Certain investment funds. ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the guidance in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this guidance using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The adoption of ASU 2015-02 is not expected to have any material impact on the Company’s financial statement presentation or disclosures.

In July 2015, the FASB issued Accounting Standards Update ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory,” which applies to inventory that is measured using first-in, first-out (“FIFO”) or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable

costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, first-out ("LIFO"). ASU 2015-11 is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company will adopt the standard in the interim and annual period after December 31, 2016. The adoption of ASU 2015-11 is not expected to have any material impact on the Company's consolidated financial statements.

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In November 2015, the FASB issued Accounting Standards Updates ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The FASB issued ASU 2015-17 as part of its ongoing Simplification Initiative, with the objective of reducing complexity in accounting standards. The amendments in ASU 2015-17 require entities that present a classified balance sheet to classify all deferred tax liabilities and assets as a noncurrent amount. This guidance does not change the offsetting requirements for deferred tax liabilities and assets, which results in the presentation of one amount on the balance sheet. Additionally, the amendments in this ASU align the deferred income tax presentation with the requirements in International Accounting Standards (IAS) 1, Presentation of Financial Statements. The amendments in ASU 2015-17 are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Based on the Company's existing accounting policies, the Company already classified the deferred tax assets as non-current assets and the adoption of ASU 2015-17 has no material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Updates ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases. ASU 2016-02 will also require new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently reviewing the provisions of this ASU 2016-02 to determine if there will be any impact on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The objective of the simplification initiative is to identify, evaluate, and improve areas of US GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. ASU 2016-09 will be effective for public companies for reporting periods beginning after December 15, 2016. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

In June 2016, the FASB issued Accounting Standards Update ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326), which modifies the measurement of expected credit losses of certain financial instruments. ASU 2016-13 will be effective for the Company beginning in its first quarter of 2021 and early adoption is permitted. The adoption of ASU 2016-13 is not expected to have any material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". The updated guidance aims to reduce diversity in presentation and classification of certain cash receipts and cash payments by addressing eight specific cash flow issues including (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies; (6) Distributions Received from Equity Method Investees; (7) Beneficial Interests in Securitization Transactions and (8) Separately Identifiable Cash Flows and Application of the Predominance Principle. Among the afore-mentioned eight addressed cash flow issues, the category of "Separately Identifiable Cash Flows and Application of the Predominance Principle" requires a reporting entity to classify cash

receipts and payments that have aspects of more than one class of cash flows first by applying specific guidance in generally accepted accounting principles (GAAP) and, only in the absence of specific guidance, by determining each separately identifiable source or use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, a reporting entity should classify such cash receipts and cash payments by referring to the predominant source or use of cash flows for the item. The updated guidance is effective from reporting periods beginning after December 15, 2018. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of the issuance of this standard.

As of December 31, 2016, there are no recently issued accounting standards not yet adopted that would have a material effect on the Company’s financial statements.

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Note 3 - DEPOSITS AND OTHER RECEIVABLES

Deposits and other receivables consisted of the following:

	December 31, 2016	December 31, 2015
Current portion		
Deposits paid for research and development of new medicine	$80	$80
Other receivables and prepaid expenses	170,982	2,511
Prepaid expenses and other receivables	$171,062	$2,591
Non-current portion		
a) Deposit paid for intended acquisition a health product material supplier	$11,591,407	$12,402,360
b) Deposit paid for intended acquisition a health product manufacturer	4,895,749	3,697,598
c) Deposit paid for construction work	888,521	-
d) Deposit paid for intended acquisition of a mining company	2,591,867	-
e) Deposit paid for acquisition of intangible assets	1,180,740	-
Deposits	$21,148,284	$16,099,958

a. In December 2014, the Company signed a letter of intent to acquire 100% interest in a company in the PRC, which is principally engaged in supply of raw materials to produce health product, for an aggregate consideration of approximately $11.8 million (RMB 82 million) in cash. The completion of the acquisition is subject to the completion of a valuation report and certain conditions set out in the letter of intent being met. The deposit is fully refundable if certain conditions set out in the letter of intent are not met. The acquisition has yet to complete by December 31, 2016.

b. In November 2013, the Company signed a letter of intent to acquire 100% interest in a health product manufacturer for an aggregate consideration of approximately $8.1 million (RMB 56 million), the acquisition is in final stage and the Company is reviewing the draft of shares transfer agreement. The acquisition has yet to complete by December 31, 2016.

c. The Company entered into a construction contract to carry out improvement work in production plant at approximately $0.9 million (RMB 6.2 million).

d. In November 2016, the Company agreed to pay approximately $2.6 million (RMB 18 million) for a potential acquisition of a mining company in the PRC which is principally engaged in the supply of raw materials to produce health products. The deposit is fully refundable and the acquisition was yet to complete by December 31, 2016.

e. In December 2016, the Company signed a purchase contract to acquire an existing drug permit from an independent third party at a consideration approximately $1.2 million (RMB 8.2 million). The deposit is fully refundable if certain conditions set out in the purchase contract are not met. The acquisition has yet to complete by December 31, 2016.

Note 4 - LOAN RECEIVABLES

In November 2012, the Company advanced approximately $8.6 million (RMB 60 million) to a third party as a commercial loan, interest bearing at 13% per annum. The principal and interest were originally to be repaid on

December 31, 2013. In 2013, the term of loan was extended to June 30, 2014. In 2014, the term of loan was further extended to December 31, 2015.

No interest has been recognized for years ended December 31, 2016 and 2015 as the Company recognized full impairment loss on loan receivables since 2015 as the Company has determined the borrower is insolvent.

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Note 5 - SHORT-TERM BANK LOANS

Short-term bank loans consisted of the followings:

Inception date	Details	Balance as at December 31, 2016	2015
May 26, 2014	RMB 20 million, one year term loan, annual interest rate at 7.80%. During the year ended December 31, 2016, the Company paid interest of RMB 0.3 million. As of December 31, 2016, the Company had cumulatively repaid RMB 3.8 million and recorded accrued interest expenses of RMB 2.1 million.	$2,325,643	$2,773,199

The loan is secured by (i) personal guarantee executed by a major shareholder of the Company; (ii) pledge of the Company's buildings and land use right with carrying amount of approximately $3.2 million as of December 31, 2016 (Note 2); and the guarantee executed by Shaanxi BioStar. As of December 31, 2016, the short-term bank loan is due on demand due to violation of loan covenants, and the Company is in negotiations with the bank to extend the loans.

Note 6 - STOCKHOLDERS' EQUITY

(a) Common stock

As of December 31, 2016 and 2015, the Company has 100,000,000 shares of common stock authorized, 2,637,188 and 2,210,913 shares issued and outstanding at par value of $0.001 per share respectively.

On February 4, 2016, the Company effectuated a one-for-seven reverse split of its common stock; the Company's stockholder's equity, information on number of shares and loss per share has been retroactively restated to the first period presented.

For the year ended December 31, 2016	Shares issued	Value
Issued to selected investors through placement agent, at $4.5 per share less financing cost	425,000	$1,689,500
Total common stock issued during the year ended December 31, 2016	425,000	$1,689,500

The amount of $1,689,500 relating to item (i) above is allocated to the following equity and liability:

Common stock	$427
Warrants liability - Note 6(b)	623,380
Additional paid-in-capital	1,065,693
	$1,689,500

(b) Warrants

In connection with a public offering completed during the year ended December 31, 2014, the Company issued warrants to purchase an aggregate of 94,286 shares of common stock with a per share exercise price of $22.61. Additionally, the Company issued warrants to the placement agents to purchase 14,142 shares of common stock in the aggregate on the same terms as the warrants sold in the offering. The warrants are exercisable immediately as of the date of issuance and expiring three years from the date of issuance. The exercise price of the underlying warrants has

been adjusted to $3.11 in respect of the public offering in October 2016 as mentioned in below paragraph.

In accordance with the Company's stated accounting policy in Note 2, the warrants are initially recognized as a derivative liability at fair value at grant date. Accordingly, an amount $960,894, representing the full fair value of the warrants was recognized in year 2014. As of December 31, 2016, the carrying amount of the warrants was $0, being its fair value.

In connection with a public offering in October 2016, the Company issued warrants to purchase an aggregate of 212,500 shares of common stock with a per share exercise price of $5.55. Additionally, the Company issued warrants to the placement agents to purchase 22,500 shares of common stock in the aggregate on the same terms as the warrants sold in the offering. The warrants are exercisable beginning six months and a day after the closing of this offering and expire three and a half years from the date of issuance.

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In accordance with the Company's stated accounting policy in Note 2, the warrants are initially recognized as a derivative liability at fair value at grant date. Accordingly, an amount $623,380, representing the full fair value of the warrants was recognized in year 2016. As of December 31, 2016, the carrying amount of the warrants was $455,476, being its fair value.

For the years ended December 31, 2016 and 2015, a fair value adjustment of $227,106 and $324,093 reduced the carrying value of warrants was made and recorded as a gain in the Consolidated Statements of Operations and Comprehensive Income.

As of December 31, 2016 and 2015, the Company has 343,429 and 108,429 warrants outstanding, with weighted average exercise price of $8.47 and $22.61, respectively.

The following table summarizes the Company's outstanding warrants as of December 31, 2016 and 2015.

Expiry date	Exercise Price	Outstanding as at December 31, 2016	2015
March 12, 2017 *	3.11 (2015: 22.61)	108,429	108,429
April 14, 2020 *	5.55	235,000	-
		343,429	108,429

* The Company's recurring fair value measurements at December 31, 2016 were as follows:

	Fair Value as of December 31, 2016	Significant Unobservable Inputs (Level 3)
Liabilities:		
Warrants expiring March 2017	$-	$ -
Warrants expiring April 2020	455,476	455,476

The Company determined the fair value of the warrant liability using the Binomial Model. The model considered amounts and timing of future possible equity and warrant issuances and historical volatility of the Company's stock price.

(c) Stock Options

The following tables summarize activities for the Company's options for the years ended December 31, 2016 and 2015.

	Number of options	Weighted Average Exercise Price ($)	Remaining Life (years)
Balance, December 31, 2015	6,762	26.39	0.54

Expires	(3,333)	41.37	-
Balance, December 31, 2016	3,429	11.76	0.30
Vested and exercisable as at December 31, 2016	3,429	11.76	0.30

As of December 31, 2016, there was no unrecognized compensation cost related to outstanding stock options, and the intrinsic value was close to zero because the exercise price was out-of-the-money.

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 year ended December 31, 2016 and 2015, and has recorded income tax provision for the periods.

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The provision for income taxes consists of the following:

	Year Ended December 31, 2016	2015
Current:		
USA	$-	$-
PRC	-	-
	-	-
Deferred:		
USA	-	-
PRC	2,653,054	1,319,846
Provision for income taxes	$2,653,054	$1,319,846

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

	Year Ended December 31, 2016	2015
Income tax at USA statutory rate (34%)	$(1,035,413)	$(8,089,523)
Foreign rate differential	263,635	2,154,408
Tax effect of permanent differences due to:		
Non deductible expenses	-	171,932
Others	67,993	297,348
Change in valuation allowance	3,356,839	6,785,681
Provision for income taxes	$2,653,054	$1,319,846

For the years ended December 31, 2016 and 2015, the change in valuation allowance is mainly arise from the tax benefit on net operating loss carry forward for PRC and USA operation and the temporary differences on the carrying amount of accounts receivable, loans receivable, and intangible assets.

The deferred tax assets for the USA operation as of December 31, 2016 and 2015 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, 2016	December 31, 2015
USA Tax benefit on net operating loss carry forward	$2,928,499	2,873,434
Valuation allowance	(2,928,499)	(2,873,434)
Deferred tax asset - USA	$-	$-

As of December 31, 2016 and 2015, the Company had federal and state net operating loss carry-forwards of $8.6 million and $8.6 million 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, 2036.

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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, 2016	December 31, 2015
PRC Tax benefit on net operating loss carry forward	$5,238,574	$4,497,612
Tax effect of temporary differences due to		
Depreciation, amortization and impairment of assets	5,549,700	5,426,964
Provision of bad debts	842,764	1,737,314
Provision of commission expense	182,884	455,930
Others	700,813	396,126
Valuation allowance	(9,999,463)	(7,107,353)
Deferred tax asset - PRC	$2,515,272	$5,406,593

As of December 31, 2016, the Company had net operating loss carry-forward of approximately $13.4 million (RMB 93.2 million) available to offset future taxable income in the PRC. The net operating loss carry-forward of $0.4 million, $6.2 million, $6.8 million will expire, if unused, in the years ending December 31, 2018, 2020, 2021, respectively.

A valuation allowance against deferred tax assets of $2.5 million as of December 31, 2016 is considered necessary because it is more likely than not the deferred tax asset will be fully realized. In particular, because of the unexpected further delay of the renewal of GMP certificates in Aoxing Pharmaceutical from the second half of 2016 to the first half of 2017 and the expiry of PRC tax losses brought forward from last year, additional valuation allowance of US$2,653,054 has been made for 2016.

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, 2016 and 2015, 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 – LOSS PER SHARE

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

	Years Ended December 31,	
	2016	2015
Basic loss per share:		
Numerator:		
Net loss used in computing basic loss per share	$(5,698,385)	$(25,112,562)
Denominator:		
Weighted average common shares outstanding	2,297,336	2,210,913

Basic loss per share	$(2.5)	$(11.4)
Diluted loss per share:		
Numerator:		
Net loss used in computing diluted loss per share	$(5,698,385)	$(25,112,562)
Denominator:		
Weighted average common shares outstanding	2,297,336	2,210,913
Diluted loss per share	$(2.5)	$(11.4)

The computation of diluted net loss per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be anti-dilutive. The dilutive common stock equivalents are the stock warrant of 343,429 and 108,429 as at December 31, 2016 and 2015.

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In accordance with ASC-260-10-50-I(c), for the years end December 31, 2016 and 2015, the Company, using the treasury stock method, determined that both the outstanding options and warrants would have been anti-dilutive if included in the denominator of the Company's dilutive loss per share calculation because they were both out of the money. Holders of either securities would not have exercised the rights under these securities; accordingly, the options and warrants have been excluded from the loss per share calculation. Details of the attributes, such a strike price and time to maturity of the options and warrants are detailed in "Note 6 Stockholder's Equity".

Note 9 - STATUTORY RESERVES

The Company's subsidiaries and VIE in the PRC are required to make appropriations to certain non-distributable reserve funds. In accordance with the laws and regulations applicable to China's foreign investment enterprises and with China's Company Laws, an enterprise's income, after the payment of 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 off against losses, expansion of production and operation or increase in the registered capital of a company. This reserve fund is not transferable to the Company in the form of cash dividends, loans or advances, and therefore not available for distribution except in liquidation. As of December 31, 2016 and 2015, the Company's VIE had allocated approximately $7.4 million to these non-distributable reserve funds.

Note 10 - OTHER COMPREHENSIVE INCOME

Balance of related after-tax components comprising accumulated other comprehensive income included in stockholders' equity as of December 31, 2016 and 2015 were as follows:

	Year Ended December 31,	
	2016	2015
Accumulated other comprehensive income, beginning of period	$3,434,348	$6,391,998
Change in cumulative translation adjustment	(2,753,697)	(2,957,650)
Accumulated other comprehensive income, end of period	$680,651	$3,434,348

Note 11 - COMMITMENTS

The following table illustrates the Company's capital payment commitments as at December 31, 2016 and 2015 (in million):

	Total capital payment commitment	December 31, 2016	December 31, 2015
a) Three agreements with certain research institutes to conduct clinical trials for two new and one existing drugs.	$ 1.9	$ 0.7	$ 0.8
b) In December 2014, the Company signed a letter of intent to acquire 100% interest in a company in the PRC, which is principally engaged in supply of raw materials to produce health product, for an aggregate consideration of approximately $11.8 million (RMB 82 million) in cash.	11.8	0.2	0.2
	8.1	3.2	4.9

c) In November 2013, the Company signed a letter of intent to acquire 100% interest in a health product manufacturer for an aggregate consideration of approximately $8.1 million (RMB 56 million), subject to the completion of a due diligence report and certain conditions set out in the letter of intent being met.			
d) In November 2016, the Company entered into a construction contract to carry out improvement work in production plant.	0.9	0.1	-
Total capital payment commitment		$ 4.2	$ 5.9

Note 12 - SEGMENT INFORMATION

For the years ended December 31, 2016 and 2015, 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.

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Note 13 - RISKS CONCENTRATION

The following tables illustrate the Company's risks concentration:

Sales and accounts receivable risks concentration

Customer	Percentage of total sales during the year ended December 31, 2016	2015	Percentage of total accounts receivable as at year ended December 31, 2016	2015
A	100%	19 %	60%	28 %
B	0 %	46 %	35%	66 %
Total risks concentration	100%	65 %	94%	94 %

Purchase and accounts payable risks concentration

Vendor	Percentage of total purchase during the year ended December 31, 2016	2015	Percentage of total accounts payable as at year ended December 31, 2016	2015
C	0 %	27 %	0 %	0 %
D	0 %	26 %	0 %	0 %
E	0 %	8 %	0 %	0 %
F	0 %	7 %	0 %	0 %
G	35%	0 %	0 %	0 %
H	28%	0 %	0 %	0 %
I	8 %	0 %	0 %	0 %
J	7 %	0 %	0 %	0 %
Total risks concentration	78%	68 %	0 %	0 %

Note 14 - SUBSEQUENT EVENTS

On February 21, 2017, Biostar Pharmaceuticals, Inc. (the "Company") received a notification letter from Nasdaq Listing Qualifications ("Nasdaq") advising the Company that, following Zhongyang Shang's resignation as an independent director of the Company, the Company was not in compliance with Nasdaq's continued listing requirements set forth in Listing Rule 5605 pertaining to the independent director membership of the Company's Board and its Audit and Compensation Committees.

Pursuant to Listing Rules 5605(b)(1)(A), 5605(c)(4) and 5605(d)(4), the Company is extended a cure period to regain compliance with the foregoing deficiency as follows:

- Until the earlier of the Company's next annual shareholders' meeting or February 5, 2018, or
- If the next annual shareholders' meeting is held before August 4, 2017, then the Company must evidence compliance no later than August 4, 2017 (together, the "Compliance Deadline").

If the Company does not regain compliance by the Compliance Deadline, the Company's securities will be subject to delisting. At that time, the Company may appeal the delisting determination to a Hearings Panel.

Effective as of February 5, 2017, an independent member of the board, Zhongyang Shang tendered his resignation of the Board and of the Board's standing committees due to severe personal health issues.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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, 2016.

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, 2016. 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, 2016, 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 2016 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 March 25, 2017.

Name	Position	Age	Date of Appointment
Ronghua Wang	Chairman, Chief Executive Officer	61	November 1, 2007
Qinghua Liu	Director	49	November 1, 2008
Leung King-fai	Independent Director (1)(4)	43	April 7, 2011
Haipeng Wu	Independent Director (1)(2)(3)	59	July 1, 2007
Zhenghong Wang	Chief Operating Officer	36	March 26, 2012
Xiaojuan Zhai	Chief Financial Officer	28	February 5, 2017

(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.

Xiaojuan Zhai has been our Chief Financial Officer since February 5, 2017. From September 2015 to February 2017, Ms. Zhai served as a Deputy CFO at Shaanxi Aoxing Pharmaceutical Co., Ltd., the Company's PRC affiliate. Prior to that, she was employed as an Accounting Supervisor at Dahua Biological Technology Investment Co., Ltd. Ms. Zhai holds a degree in Accounting from Xi'an Peihua University.

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 February 2015 to present, Mr. Leung is an Executive Director of Creative Energy Solutions Holdings Limited, a company that offers energy saving solutions listed on the Hong Kong Stock exchange. He is also an Independent Non-executive Director of Daisho Microline Holdings Limited, a company listed on the Hong Kong Stock exchange. From September 2010 to March 2015, Mr. Leung served as an Executive Director of Hao Wen Holdings Limited, a company listed on the Hong Kong Stock exchange. He holds a Bachelor's degree in Commerce from Deakin University, Victoria, Australia (1996). He is a member of the

Hong Kong Institute of Certified Public Accountants and CPA Australia. He brings his experience and expertise in the areas of accounting, corporate finance and taxation to the Board and the Company.

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.

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.

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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

From time to time, the Company is involved in legal matters arising in the ordinary course of business. Except as set forth in the updated disclosures below, there were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015 and the Company's subsequent public filings. The Company undertakes no obligation to update or revise the information set forth herein, whether as a result of new information, changed circumstances or future events or for any other reason.

On September 1, 2015, Shaanxi Aoxing Biostar Biotech Ltd. was informed by the People's Court of Shaanxi Province (the "Shaanxi Court") that its properties, consisting of three residential properties valued at $0.5 million (RMB 3.3 million) had been transferred to Mr. Lianhe Wang, an individual (not affiliated with the Company) to settle an outstanding personal loan to Ronghua Wang, the Company's Chairman and CEO, in the amount of approximately RMB 5.7 million (USD$0.9 million). It is the Company's understanding that because the corporate seal of Shaanxi Biostar was affixed to the loan agreement between the foregoing parties (which was done at the request of the lender for the sole purpose of Shaanxi Biostar's acknowledging the transaction that involved its Chief Executive Officer, and not for any guarantee, security and/or undertaking or other similar purpose), the Shaanxi Court deemed Shaanxi Biostar as a co-borrower under this loan arrangement. The foregoing debt was personal debt of Ronghua Wang and no assets of Shaanxi Aoxing Biostar Biotech Ltd. were pledged to secure Ronghua Wang's obligations in connection with such personal loan. Ronghua Wang has not borrowed money from the Company; nor has the Company obtained any proceeds from, guaranteed or secured any of his loans. Subsequently, Shaanxi Biostar was informed by the Shaanxi Court that as a result of Ronghua Wang's inability to service the personal debt in question, Shaanxi Biostar's properties (3 properties totaling 504 sq. meters), valued at RMB 3.3 million (US$0.5 million) had been transferred to Lianhe Wang to satisfy the outstanding debt. Shaanxi Biostar agreed to the foregoing arrangement to avoid further legal costs; Ronghua Wang agreed to compensate the Company for any loss arising from this legal matter. The Company understands that with respect to the properties transferred to Wang Lianhe, Wang Lianhe is willing to return the properties to Shaanxi Biostar if Ronghua Wang satisfies and discharges his personal loan obligations. Ronghua Wang has repaid in full the $0.5 million (RMB 3.3 million) to the Company as compensation for the loss of properties and there are no any material effects on the Company's day-to-day operations as a result of the foregoing events.

In May 2015, a bank account of Shaanxi Aoxing Pharmaceutical Company Limited was frozen as a result of actions by Bai Yun, an individual lender (not affiliated with the Company), in his attempt to collect the outstanding balance on the personal loan due to him from Ronghua Wang in the amount of RMB 2.67 million (USD$0.44 million), which personal loan was in default. The foregoing debt was personal debt of Ronghua Wang dating to 2010, which Ronghua Wang obtained to acquire a real estate parcel; no assets of Shaanxi Aoxing Pharmaceutical Company Limited were pledged to secure Ronghua Wang's obligations in connection with such personal loan. Also, the corporate seal of Shaanxi Biostar was affixed to the loan agreement between the foregoing parties (which was done at the request of the lender for the sole purpose of Shaanxi Biostar's acknowledging the transaction that involved its Chief Executive Officer, and not for any guarantee, security and/or undertaking or other similar purpose). As of June 2014, Wang Ronghua owed Bai Yun RMB 5.17 million (or US$0.8 million representing principal and accrued interest on the original loan. Subsequently, Ronghua Wang commenced a lawsuit against the seller of the real estate in question and,

in December 2014, secured a judgment in the amount of RMB 17 million against the seller to recover the purchase price. At approximately the same time, Bai Yun initiated a legal action against Ronghua Wang to collect on the outstanding debt. The parties to the dispute engage in settlement negotiations and on January 9, 2015, the court finalized the settlement arrangement between the parties. Ronghua Wang has been attempting to collect on his judgment against the seller, but so far he has not been successful, which, in turn, resulted in his inability to honor the terms of his settlement arrangement with Bai Yun. In May 2015, Bai Yun sought to foreclose on the Company's land and bank account to satisfy the outstanding debt and in February 2016, the court attempted to force a sale of the Company's 2,674 sq. meter parcel which is currently idle, at an auction. In order to prevent such auction sale, Ronghua Wang paid RMB 2.5 million (US$0.36 million) to Bai Yun in March 2016 which amount was applied to the outstanding debt; following this payment, Bai Yun petitioned the court to terminate the auction sale. The title of the buildings and land use rights subject of this legal matter are currently seized by the court, but have not been transferred to the lender. As of December 31, 2016, Ronghua Wang was negotiating the settlement terms of the remaining balance on the loan and had partially repaid the outstanding balance of the loan, thus avoiding the Company's land use rights and buildings being seized and auctioned with proceeds used to settle this debt. If he pays off the remaining balance of the loan to Bai Yun, it is the Company's understanding that the properties and land will be immediately released. As of the date of this report, the matter has not been resolved and the remaining balance owed to Bai Yun still outstanding; accordingly, the properties and land remain seized by the courts.

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Following Nasdaq Listing Qualifications staff's comments on the Company's disclosures relating to the foregoing matters set forth in its Annual Report on Form 10-K for the year ended December 31, 2015, the Company provided a full set of responses and supplemental materials for the staff's review and consideration. There is also no assurance that Ronghua Wang will be able to repay his personal debts in full before his creditor(s) take any other further legal action. If the remaining balance is not repaid, the Company's property and assets in question will remain in Ronghua Wang's creditor(s)' possession until the debt is discharged. If and to the extent such properties are not returned to the Company or the Company does not obtain timely and adequate compensation for such transfers, the Company's business and operations may suffer adverse consequences. On October 10, 2016, the Nasdaq Listing Qualifications staff sent a follow up letter to the Company regarding the background and circumstances as well as involvement and actions by the Company's Board of Directors regarding the use of Company assets, and internal controls governing the use of Company stamps and chops related to the legal proceedings described above. The Company provided its responses to the follow-up letter to Nasdaq on October 28, 2016 with details surrounding the legal proceedings as well as the Board involvement, or lack thereof, to the loan agreements entered into by Mr. Ronghua Wang that have resulted in the seizure of certain of the Company assets. There is no assurance that the Nasdaq staff will not continue its inquiry resulting in an action that may have adverse effects on the Company's continued listing on the Nasdaq Stock Market.

Except as described above, there are no other material proceedings that the Management is aware of 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:

(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.

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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 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.

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 http://www.biostarpharmaceuticals.com. Information on our corporate website is not a part of this Annual Report. 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, with Haipeng Wu is the only other member of the Committee following Zhongyang Shang's departure. 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 has adopted a written charter for the Audit Committee. A copy of the Audit Committee charter is posted on our corporate website at http://www.biostarpharmaceuticals.com.

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

Compensation Committee

We established our Compensation Committee in December 2009. The Committee consists of Haipeng Wu as the only current member of the Committee following Zhongyang Shang's departure. 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.

The Board has adopted a written charter for the Compensation Committee. A copy of the Compensation Committee charter is posted on our corporate website at http://www.biostarpharmaceuticals.com.

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Nominating Committee

We established our Nominating Committee in December 2009. The nominating committee currently only consists of Haipeng Wu, the Chairman of the 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 http://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 2016 and 2015, the named executive officers consisted of Ronghua Wang (Chief Executive Officer (Principal Executive Officer)), Qinghua Liu (Interim Chief Financial Officer (Principal Financial Officer effective from December 18, 2012), and Zhenghong Wang (Chief Operating Officer).

Name/Office	Year	Salaries ($)	Bonus ($)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation Earnings ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Ronghua Wang	2016	16,257	-	-		-	-	16,257
Chairman, CEO (1)	2015	17,370	-	-		-	-	17,370
Qinghua Liu	2016	12,103	-	-		-	-	12,103
Interim CFO (2)	2015	12,931	-	-		-	-	12,931
Zhenghong Wang	2016	6,142	-	-		-	-	6,142
COO (3)	2015	-	-	-		-	-	-

(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 2016 and 2015. 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 6.6431 to one U.S. dollars for 2016, and RMB 6.2175 to one U.S. dollars for 2015.
(2) Ms. Liu was appointed as Interim CFO on December 18, 2012 and resigned on February 5, 2017. 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 years ended December 31, 2016 and 2015 is reflected in director compensation table.
(3) Mr. Wang was appointed as the Company's COO on March 26, 2012. Mr. Wang's compensation for the years ended December 31, 2016 and 2015 is reflected in director compensation table.

Outstanding Equity Awards - 2016

Name

	Grant Date	Number of Securities Underlying Unexercised Options Exercisable*	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price ($)*	Option Expiration Date
Zack Zibing Pan (2)	4/20/2012	3,428	(1)	11.76	4/19/2017

(1) The options are to be vested on April 20, 2013.

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

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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.

The employment agreement between Aoxing and Mr. Ronghua Wang covering the 5-year term ending June 30, 2015 has expired; 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. 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.

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, 2016:

	Fees ($)	Stock Awards ($)	No-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All other Compensation ($)	Total ($)
Qinghua Liu	12,103	-	-	-	-	12,103
Haipeng Wu	9,032	-	-	-	-	9,032
King-fai Leung	9,032	-	-	-	-	9,032

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.

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

Equity Compensation Plan Information

At the annual general shareholder meeting held on October 28, 2011, the Company's shareholders 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.

At the annual general shareholder meeting held on October 26, 2012, the Company's shareholders 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.

At the annual general shareholder meeting held on November 22, 2013, the Company's shareholders approved the 2013 Equity Incentive Plan. The maximum number of shares that may be issued under the 2013 Plan is 1,150,000 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 2013 Plan. The 2013 Plan is administered by the Board, which has all the power to administer the 2013 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, 2016, 1,150,000 shares of common stock have been issued under the 2013 plan.

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At the annual general shareholder meeting held on December 3, 2014, the Company's shareholders approved "Biostar Pharmaceuticals, Inc. 2014 Equity Incentive Plan" (hereinafter the "2014 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 2014 Plan is administered by the Compensation Committee of the Board (the "Committee"), which is comprised of directors who satisfy the "non-employee director" definition under Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act") and the "outside director" definition under Section 162(m) of the Code. The Committee may delegate to an officer of the Company its authority to grant awards to employees who are not subject to Section 16 of the Exchange Act or who are not "covered employees" under Section 162(m) of the Code (collectively, the "Specified Employees"). 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 15, 2016, there were no shares of our common stock and / or options to purchase common stock available for future issuance under the 2014 plan.

	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*	51,746	$ 57.54	-
2011 Plan	3,428	11.76	38,000
2012 Plan	-	-	-
2013 Plan	-	-	-
2014 Plan	-	-	214,286
2015 Plan	-	-	214,286
Equity compensation plans not approved by security holders	-	-	-
TOTAL	55,174	$ 54.67	252,286

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

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Security Ownership of Certain Beneficial Owners and Management

Set forth below is information regarding the beneficial ownership of our common stock, as of March 25 2017, 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)	437,475	16.6 %
Xiaojuan Zhai (4)	-	*
Liu Qinghua (3)	3,953	*
Haipeng Wu (3)	952	*
Zhenghong Wang (3)	952	*
Leung King-fai (3)	952	*
All directors and executive officers of the Company (six persons)	452,999	17.2 %

*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 10,476 shares of common stock issuable upon exercise of stock options that were granted on October 22, 2009.

(3) Consists of shares of common stock issuable upon exercise of stock options there were granted on October 22, 2009.

(4) Appointed to the CFO office in February 2017.

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

Certain Relationships and Related Transactions

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.

Except as set forth in notes to the financial statements included in this Annual Report, during the 2016 and 2015 fiscal years, the Company has not been a participant in any transaction that is reportable under Item 404(d) of Regulation S-K. The Company knows of no proposed transaction in which it will be a participant that would be reportable under Item 404(d) of Regulation S-K.

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Director and Board Nominee Independence

Our Board is subject to the independence requirements of the Nasdaq Stock 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

The foregoing determination by the Company was made upon approval and recommendation of the Audit Committee of the Board. On October 19, 2014, the engagement of Mazars CPA Limited ("Mazars"), located at 42nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, as the Company's new independent registered public accounting firm to audit the Company's financial statements for the year ending December 31, 2014 was reviewed, recommended and approved by the Audit Committee effective as of November 15, 2014. 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 2016 and 2015:

Services Performed	2016	2015
Audit Fees (1)	$200,000	$200,000
Audit-Related Fees	$-	$-
Tax Fees	$-	$-
All Other Fees	$-	$-
Total Fees	$200,000	$200,000

(1) Audit fees – the fees related to the audit of our annual financial statements and the review of our quarterly financial statements.

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 2016, all such services were pre-approved by the Audit Committee.

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PART IV

ITEM 15. EXHIBITS

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)
3.7	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) **
4.4	Form of Common Stock Warrant (15)
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*
10.8	The Supplemental Agreement to Share Transfer Contract, dated March 11, 2013, by and between Shaanxi Aoxing Pharmaceutical Co., Ltd. and all the former equity holders of Shaanxi Weinan Huaren Pharmaceuticals. Ltd.
10.9	Securities Purchase Agreement (15)
14.1	Code of Ethics (4)
21	List of subsidiaries *
23.1	Consent of Independent Registered Public Accounting Firm *
23.2	Consent of Independent Registered Public Accounting Firm *
23.3	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 Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification of the Principal Financial Officer 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.
(15) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on October 11, 2016.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURE PAGE

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 13, 2017 By: /s/ Ronghua Wang
Ronghua Wang
Chief Executive Officer and President
(Principal Executive Officer)

Date: April 13, 2017 By: /s/ Xiaojuan Zhai
Xiaojuan Zhai
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 13, 2017 By: /s/ Qinghua Liu
Qinghua Liu, Director

Date: April 13, 2017 By: /s/ Haipeng Wu
Haipeng Wu, Independent Director

Date: April 13, 2017 By: /s/ King-fai Leung
King-fai Leung, Independent Director