Biostar Pharmaceuticals, Inc.
Form 10-Q
May 23, 2016

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

FORM 10-Q

(Mark One)
Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the quarterly period ended: March 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 People's Republic of China	712046
(Address of principal executive offices)	(Zip code)

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer 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 May 9, 2016, the Company had 2,210,913 shares issued and outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

BIOSTAR PHARMACEUTICALS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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BIOSTAR PHARMACEUTICALS, INC
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$91,482	$38,898
Accounts receivable, net	14,712,467	15,814,880
Inventories	293,441	234,660
Deposits and other receivables	2,608	2,591
Income tax recoverable	135,838	76,280
Loan receivables, net	-	-
Total Current Assets	15,235,836	16,167,309
Non-current Assets		
Deposits	16,206,827	16,099,958
Deferred tax assets, net	5,442,481	5,406,593
Property and equipment, net	6,749,372	6,810,933
Intangible assets, net	6,740,676	6,878,787
Total Non-Current Assets	35,139,356	35,196,271
Total Assets	$50,375,192	$51,363,580
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current Liabilities		
Accounts and other payables	$3,844,762	$4,153,411
Short-term bank loans	2,504,866	2,773,199
Value-added tax payable	40,500	112,629
Warrants liability	31,011	59,202
Total Current Liabilities	6,421,139	7,098,441
Commitment and contingencies		
Stockholders' Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized, 2,210,913 shares issued and outstanding as of March 31, 2016 and December 31, 2015	2,210	2,210
Additional paid-in capital	30,316,774	30,316,774
Statutory reserve	7,354,413	7,354,413
Retained earnings	2,537,053	3,157,394
Accumulated other comprehensive income	3,743,603	3,434,348
Total Stockholders' Equity	43,954,053	44,265,139

Total Liabilities and Stockholders' Equity	$50,375,192	$51,363,580

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

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

	Three Months Ended March 31, 2016	2015
Sales	$801,627	$6,908,747
Cost of sales	456,657	3,327,497
Gross profit	344,970	3,581,250
Operating expenses:		
Advertising expenses	-	1,377,164
Selling expenses	323,066	1,299,717
General and administrative expenses	690,422	775,755
Research and development expenses	-	1,018,612
Total operating expenses	1,013,488	4,471,248
Loss from operations	(668,518)	(889,998)
Other (expense) income		
Interest income	-	322,345
Interest expense	(38,239)	(61,455)
Fair value adjustment on warrants	28,191	(9,867)
Total other (expense) income, net	(10,048)	251,023
Loss before income taxes	(678,566)	(638,975)
Income tax benefit	58,225	478,871
Net loss	$(620,341)	$(160,104)
Other comprehensive income - foreign currency translation adjustment	309,255	381,065
Comprehensive (loss) income	$(311,086)	$220,961
Net loss per share		
Basic	$(0.28)	$(0.07)
Diluted	$(0.28)	$(0.07)
Weighted average number of common shares outstanding		
Basic	2,210,913	2,210,913
Diluted	2,210,913	2,210,913

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

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

	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(620,341)	$(160,104)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Accrued interest income	-	(317,807)
Deferred tax benefit	(58,225)	(478,871)
Depreciation and amortization	316,877	487,437
Recognition of deferred research and development expenses	-	1,018,612
Warrants liability	(28,191)	9,867
Changes in operating assets and liabilities:		
Accounts receivable	1,190,484	2,468,538
Inventories	(56,422)	280,628
Deposits and other receivables	-	90,837
Accounts payable and accrued expenses	(329,503)	(320,825)
Value-added tax payable	(71,857)	(243,286)
Net cash provided by operating activities	342,822	2,835,026
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit paid for intended acquisition	-	(1,629,779)
Purchase of property, plant and equipment	-	(30,646)
Net cash used in investing activities	-	(1,660,425)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term bank loans	(282,725)	(162,978)
Net cash used in financing activities	(282,725)	(162,978)
Effect of exchange rate changes on cash and cash equivalents	(7,513)	12,614
Net increase in cash and cash equivalents	52,584	1,024,237
Cash and cash equivalents, beginning balance	38,898	1,685,154
Cash and cash equivalents, ending balance	$91,482	$2,709,391
SUPPLEMENTAL DISCLOSURES:		
Interest received	$-	$4,538
Interest paid	$(38,239)	$(61,455)

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

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONDENSED 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 19,832,311 shares (representing 6,610,770 shares, after the one-for-three reverse split of the issued and outstanding common stock of the Company effective on April 3, 2012) 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 to 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 replacements 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 to 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 to 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.

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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. 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 ("GAAP").

Liquidity and Going Concern

As of March 31, 2016, we had $91,482 of cash and working capital of $8,814,697. For the period ended March 31, 2016, we incurred a net loss of $620,341 and net cash provided by operating activities of $342,822. 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 condensed 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 by the second quarter in 2016. 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 continued to remain at the present decreased levels. There is no assurance that the production lines at Aoxing 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, the Company's properties were transferred, and the Company's land use rights and buildings were at the risk of being seized and auctioned. As of May 9, 2016, Mr. Ronghua Wang 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. Mr. Ronghua Wang intends to repay the Company in full for the loss. The Company has disclosed the above legal proceedings related to the Company to the best of its knowledge. There is no assurance that Mr. Ronghua Wang will be able to repay his personal debts in full before his creditors take any other further legal action. There is also no assurance that there will be no other cases that would put the Company's properties at risk.

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, we anticipate that the sales of the Company's pharmaceutical products in Shaanxi Weinan after having recently gained renewal of its GMP certificates, will be the primary organic source of funds for future operating activities in 2016. The Company will also make substantial efforts 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. 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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Principles of Consolidation

The condensed 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 those condensed consolidated financial statements. 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 either (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.

Unaudited Interim Financial Information

These unaudited interim condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial reporting and the rules and regulations of the Securities and Exchange Commission that permit reduced disclosure for interim periods. Therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been made. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the year ending December 31, 2016.

The consolidated balance sheets and certain comparative information as of December 31, 2015 are derived from the audited consolidated financial statements and related notes for the year ended December 31, 2015 ("2015 Annual

Financial Statements"), included in the Company's 2015 Annual Report on Form 10-K. These unaudited interim condensed consolidated financial statements should be read in conjunction with the 2015 Annual Financial Statements.

Foreign Currency

The Company's reporting currency is the U.S. dollar ("$"). The Company's operations in the PRC use the 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. For the period ended March 31, 2016 and 2015, the Company recognized foreign translation under other comprehensive income adjustment of a gain for $309,255 and $381,065, respectively.

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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 receivables 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.

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

At March 31, 2016 (unaudited):

	Carrying amount			
	Level 1	Level 2	Level 3	Estimated fair value
Financial assets				
Carried at (amortized) cost:				
Cash and cash equivalents	$91,482	$ -	$ -	$ 91,482

	Carrying amount			
	Level 1	Level 2	Level 3	Estimated fair value
Financial liabilities				

Carried at (amortized) cost:				
Short-term bank loans	$-	$ -	$2,504,866	$2,504,866
Carried at fair value:				
Warrants liability	-	-	31,011	31,011
	$-	$ -	$2,535,877	$2,535,877

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At December 31, 2015:

	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
Fair value adjustment of warrants during the three months end March 31, 2016	(28,191)
Value at March 31, 2016	$31,011

At March 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 $1.91, an exercise price of $22.61 expected volatility of 98.05%, risk free rate of 0.87% and time to expiration of 3 years. The change in fair value was recognized on the Company's statements of operations during the three months ended March 31, 2016.

In accordance with ASC-820-1-50-2(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 $6,244; a 5.0% increase in volatility would increase the value of the warrants to $5,408. 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.

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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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 March 31, 2016 and December 31, 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 allowances for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these allowances. Terms of sales vary. Allowances are recorded primarily on a specific identification basis.

As of March 31, 2016 and December 31, 2015, the doubtful debt provision was approximately $6.8 million.

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) earnings 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:

	March 31, 2016 (unaudited)	December 31, 2015
Raw materials	$ 248,190	$ 164,352
Work in process	16,437	51,041
Finished goods	28,814	19,267
	$ 293,441	$ 234,660

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

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Property and equipment consisted of the following:

	March 31, 2016 (unaudited)	December 31, 2015
Buildings	$2,567,837	$2,548,537
Building improvements	5,558,958	5,517,178
Machinery & equipment	1,196,413	1,187,421
Furniture & fixtures	53,595	53,192
Vehicle	112,547	111,701
Construction in progress	486,661	483,004
	$9,976,011	$9,901,033
Less: Accumulated depreciation	(3,226,639)	(3,090,100)
	$6,749,372	$6,810,933

As set out in Note 5, buildings with carrying value of approximately $1.2 million as of March 31, 2016 and December 31, 2015 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 land use rights and 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:

	March 31, 2016 (unaudited)	December 31, 2015
Land use rights	$3,091,642	$3,083,608
Proprietary technologies	16,117,384	16,065,254
	19,209,026	19,148,862
Less: Accumulated amortization and impairment	(12,468,350)	(12,270,075)
	$6,740,676	$6,878,787

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

Years Ending December 31,	
2016	$459,093
2017	612,125

2018	612,125
2019	612,125
2020	110,176
Thereafter	4,335,032

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

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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 Condensed Consolidated Statements of Operations and Comprehensive Income.

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.

Recent accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update ASU No. 2014-09, “Revenue from Contracts with Customers”, a converged standard on revenue recognition. The new pronouncement requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer, as well as enhanced disclosure requirements. ASU 2014-9 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. As an update to ASU 2014-09, in August 2015, the FASB issued Accounting Standards Update ASU No. 2015-14 "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" ("ASU 2015-14"). The amendments in this Update defer the effective date of Update 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2015-14 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. The Company will adopt the accounting standard in accordance to the prescribed timeline. The Company is assessing the impact to its accounting practices and financial reporting procedures as a result of this the issuance of this standard.

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 impact on the Company's financial statement presentation or disclosures.

In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs”. The accounting guidance requires that debt issuance costs related to a recognized debt liability be reported on the Consolidated Statements of Financial Condition as a direct deduction from the carrying amount of that debt liability. The guidance is effective for the Company retrospectively beginning in the first quarter of fiscal 2017 and early adoption is permitted. The adoption of this accounting guidance is not expected to have a material impact on the Company’s Consolidated Statements of Financial Condition.

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 principle if expected have impact on the Company’s financial reporting process, but it currently uncertain if the consolidated financial statements will be effected.

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In September 2015, the FASB issued Accounting Standards Update ASU No. 2015-16, the guidance eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The prior period impact of the adjustment should be either presented separately on the face of the income statement or disclosed in the notes. ASU 2015-16 is effective for annual and interim periods beginning after December 15, 2015, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company is currently reviewing the provisions of this ASU 2015-16 to determine if there will be any impact on the Company's consolidated financial statements.

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. The Company is currently reviewing the provisions of this ASU 2015-17 to determine if there will be any 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.

As of March 31, 2016, except for the above, there are no recently issued accounting standards not yet adopted that would have a material effect on the Company's consolidated financial statements.

Note 3 – DEPOSITS AND OTHER RECEIVABLES

Deposits and other receivables consisted of the following:

	March 31, 2016 (unaudited)	December 31, 2015
Current portion		
Other receivables and prepaid expenses	$2,608	$2,591
Non-current portion		
a) Deposits paid for intended acquisition of a health product material supplier	$12,484,685	$12,402,360
b) Deposits paid for intended acquisition of a health product manufacturer	3,722,142	3,697,598
Deposits	$16,206,827	$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 $12.7 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 remaining balance of $0.2 million (RMB 1.5 million) was expected to be settled by the second quarter of 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 $8.7 million (RMB 56 million), consisting of approximately $4.7 million (RMB 30 million) in cash and shares of the Company's common stock valued at approximately $4.0 million (RMB 26 million), the acquisition is in final stage and the Company is reviewing the draft of shares transfer agreement. It is expected to be completed in the second quarter of 2016.

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Note 4 – LOAN RECEIVABLES

In November 2012, the Company advanced approximately $9.2 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 the three months ended March 31, 2016 as the Company recognized full impairment loss on loan receivables in 2015 as the Company has determined the borrower is insolvent.

Note 5 - SHORT-TERM BANK LOANS

Short-term bank loans consisted of the followings:

		Balance as at	
Inception date	Details	March 31, 2016 (unaudited)	December 31, 2015
May 26, 2014	RMB 20 million, one year term loan, annual interest rate at 7.80%. During the three months ended March 31, 2016, the Company repaid RMB 1.8 million and paid interest of RMB 0.8 million. As of March 31, 2016, the Company had cumulatively repaid RMB 3.8 million and recorded accrued interest expenses of RMB 0.9 million.	$2,504,866	$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 aggregate carrying amount of approximately $3.7 million as of March 31, 2016 and December 31, 2015 (Note 2); and the guarantee executed by Shaanxi Biostar. As of March 31, 2016 and December 31, 2015, the short-term bank loan is due on demand due to violation of loan covenants. As of May 23, 2016, the Company is in negotiations with the bank to extend the outstanding loan balance.

Note 6 – STOCKHOLDERS' EQUITY

(a) Common stock

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

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.

(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 14,143 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.

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. As of March 31, 2016, the carrying amount of the warrant was $31,011, being its fair value. For the years ended December 31, 2015 and 2014, a fair value adjustment of $324,093 and $577,599 reduced the carrying value of warrants was made and recorded as a gain in the Consolidated Statements of Operations and Comprehensive Income. The fair value adjustment for the three months ended March 31, 2016 was a gain of $28,191.

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As of March 31, 2016 and December 31, 2015, the Company has 108,428 warrants outstanding, with weighted average exercise price of $22.61.

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

		Outstanding as at,	
Expiry date	Exercise Price	March 31, 2016	December 31, 2015
March 12, 2017	22.61	108,428	108,428

(c) Stock Options

The following tables summarize activities for the Company's options for the three months ended March 31, 2016.

	Number of options	Weighted Average Exercise Price ($)	Remaining Life (years)
Balance, December 31, 2015	6,762	26.39	0.54
Balance, March 31, 2016	6,762	26.39	0.27
Vested and exercisable as at March 31, 2016	6,762	26.39	0.27

As of March 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 three months ended March 31, 2016 and 2015, and has recorded income tax (benefits)/provision for the periods.

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 three months ended March 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 - 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 exceed 50 percent of registered capital.

Use of the statutory reserve fund is restricted to set offs against losses, expansion of production and operation or increase in the registered capital of a company. Use of the statutory public welfare fund is restricted to the capital expenditures for the collective welfare of employees. These reserves are not transferable to the Company in the form of cash dividends, loans or advances. These reserves are therefore not available for distribution except in liquidation. As of March 31, 2016 and December 31, 2015, the Company's VIE had allocated approximately $7.4 million to these non-distributable reserve funds.

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Note 9 - EARNINGS PER SHARE

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

	Three Months Ended March 31, 2016	2015
Basic loss per share:		
Numerator:		
Net loss used in computing basic earnings per share	$(620,341)	$(160,104)
Denominator:		
Weighted average common shares outstanding	2,210,913	2,210,913
Basic loss per share	$(0.28)	$(0.07)
Diluted loss per share:		
Numerator:		
Net loss used in computing diluted earnings per share	$(620,341)	$(160,104)
Denominator:		
Weighted average common shares outstanding	2,210,913	2,210,913
Diluted loss per share	$(0.28)	$(0.07)

Dilutive securities having an anti-dilutive effect on diluted loss per share are excluded from the calculation.

In accordance to ASC-260-10-50-I(c), for the three months ended March 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 and earnings per share calculation because they were both out of the money. Holders of either security would not have exercised the rights under these securities; accordingly, the options and warrants have been excluded from the loss and earnings 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 10 - OTHER COMPREHENSIVE INCOME

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

	March 31, 2016	December 31, 2015
Accumulated other comprehensive income, beginning of period	$3,434,348	$6,391,998
Change in cumulative translation adjustment	309,255	(2,957,650)
Accumulated other comprehensive income, end of period	$3,743,603	$3,434,348

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Note 11 – COMMITMENTS

	Total capital payment commitment	March 31, 2016	December 31, 2015
a) Three agreements with certain research institutes to conduct clinical trials for two new and one existing drugs.	$ 2.1	$ 0.8	$ 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 $12.7 million (RMB 82 million) in cash.	12.7	0.2	0.2
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 $8.7 million (RMB 56 million), consisting of approximately $4.7 million (RMB 30 million) in cash and shares of the Company's common stock valued at approximately $4.0 million (RMB 26 million), subject to the completion of a due diligence report and certain conditions set out in the letter of intent being met.	8.7	5.0	4.9
Total capital payment commitment		$ 6.0	$ 5.9

Note 12 – SEGMENT INFORMATION

For the three months ended March 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.

Note 13 – RISKS CONCENTRATION

For the three months ended March 31, 2016, one customer accounted for 100% of the Company's total revenue. The loss of any of these customers could have a material adverse effect on the Company's financial position and results of operations.

The following table illustrates the Company's risks concentration:

Sales risks concentration

Customer	Percentage of total sales during the Three Months Ended March 31, 2016	2015
A	100%	31 %
B	0 %	12 %
Total risks concentration	100%	43 %

Note 14 – SUBSEQUENT EVENTS

No significant event occurred from March 31, 2016 to the date these condensed consolidated financial statements are filed with the Securities Exchange Commission that would have a material impact on the Company's condensed consolidated financial statements.

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

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

You should read the following discussion and analysis in conjunction with our unaudited financial statements contained in this report as well as the audited financial statements, "Management's Discussion and Analysis of Financial Condition and Results of Operation's and Risk Factors" contained in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2015. 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"). Shaanxi Weinan owns 99 drug approvals.

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.

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. 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.

Results of Operations

Net Sales

	Three Months Ended March 31,				%
	2016		2015		change
Aoxing Pharmaceutical Products		%		%	
Xin Aoxing Oleanolic Acid Capsule	$-	- %	$3,274,385	47.4 %	(100.0%)
Other Aoxing Pharmaceutical products	-	- %	381,786	5.5 %	(100.0%)
Aoxing new products	-	- %	626,560	9.1 %	(100.0%)

Sub-total	-	- %	4,282,731	62.0 %	(100.0%)
Shaanxi Weinan Products	801,627	100.0%	426,395	6.2 %	88.0 %
Hospital products	-	- %	2,199,621	31.8 %	(100.0%)
Total sales	$801,627	100.0%	$6,908,747	100.0%	(88.4 %)

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For the three months ended March 31, 2016, total net sales decreased by approximately $6.1 million or 88.4% as compared to the same period in 2015. There were no sales for Aoxing Pharmaceutical Products and hospital products as the Company has temporarily stopped production for the maintenance of its production lines in order to renew its GMP certificates by the second quarter of 2016, allowing the production to resume in second quarter of 2016. If the Company is unable to resume production, then the Company may become insolvent.

Sales of Shaanxi Weinan's products increased during the three months ended March 31, 2016 as compared to the same period in 2015 by $0.4 million or 88.0%. After Shaanxi Weinan received the renewed GMP certificate in June 2015, the sales volume has been slowly climbing back to normal volume.

Cost of sales

	Three Months Ended March 31, 2016	%	2015	%	% change
Aoxing Pharmaceutical Products					
Xin Aoxing Oleanolic Acid Capsule	$-	- %	$562,385	16.9 %	(100.0%)
Other Aoxing Pharmaceutical products	-	- %	280,208	8.4 %	(100.0%)
Aoxing new products	-	- %	486,688	14.6 %	(100.0%)
Sub-total	-	- %	1,329,281	39.9 %	(100.0%)
Shaanxi Weinan Products	456,657	100.0%	267,330	8.1 %	70.8 %
Hospital products	-	- %	1,730,886	52.0 %	(100.0%)
Total cost of sales	$456,657	100.0%	$3,327,497	100.0%	(86.3 %)

For the three months ended March 31, 2016, total cost of sales decreased by approximately $2.9 million or 86.3%, as compared to the same period in 2015. This decrease is mainly due to the proportional decrease in sales volume.

Gross Profit

	Three Months Ended March 31, 2016 Gross Profit	Product Gross Margin %	2015 Gross Profit	Product Gross Margin %
Aoxing Pharmaceutical Products				
Xin Aoxing Oleanolic Acid Capsule	$-	- %	$2,712,000	82.8 %
Other Aoxing Pharmaceutical products	-	- %	101,578	26.6 %
Aoxing new products	-	- %	139,872	22.3 %
Sub-total	-	- %	2,953,450	69.0 %
Shaanxi Weinan Products	344,970	43.0 %	159,065	37.3 %
Hospital products	-	- %	468,735	21.3 %
Total gross profit	$344,970	43.0 %	$3,581,250	51.8 %

Gross profit decreased by approximately $3.2 million or 90.4% for the three months ended March 31, 2016, as compared to the same period in 2015. The decrease in gross profit was due primarily to the decrease in sales volume.

The overall gross profit margin decreased to 43.0% for the three months ended March 31, 2016 from 51.8% for the same period in 2015. The decline in gross profit margin during the period in 2016, as compared to the same period in 2015 was the result of the decline in sales as detailed in “Net Sales”. The allocation of fixed production cost also contributed to lower gross profit margins.

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Operating Expenses

	Three months ended March 31, 2016		2015		
	Operating expenses	% of net sales	Operating expenses	% of net sales	% change
Advertising expenses	$-	- %	$1,377,164	20.0 %	(100.0 %)
Selling expenses	323,066	40.3 %	1,299,717	18.8 %	(75.1 %)
General and administrative expenses	690,422	86.1 %	775,755	11.2 %	(8.6 %)
Research and development expenses	-	- %	1,018,612	14.7 %	(100.0 %)
Total operating expenses	$1,013,488	126.4 %	$4,471,248	64.7 %	(77.3 %)

Total operating expenses decreased by approximately $3.5 million or 77.3% for the three months ended March 31, 2016, as compared to the same period last year.

In anticipation of reduced sales volume as result of decreased production capacity, the Company temporarily suspended all advertising and research activities during the three months ended March 31, 2016.

Selling expenses consist mostly of salesman salaries, commission and other selling expenses. Overall decrease was approximately $0.9 million or 75.1%. The Company's accrued selling expenses are correlated with the Company's sales; accordingly, with the reduced sales as function of the maintenance of the production line, the Company's selling expenses decreased as well.

General and administrative expenses consist of salaries and wages, amortization and depreciation, stock-based compensation and other general and administrative expenses. During the three months ended March 31, 2016, general and administrative expenses stayed relatively stable as compared to the same period in 2015.

Provision for Income Taxes

For the three months ended March 31, 2016 and 2015, we had income tax benefit of approximately $0.06 million and $0.5 million, respectively. The uniform corporate income tax rate is 25% in China. The calculation of effective tax rate includes the operating results of all our subsidiaries and the U.S. parent company. As of March 31, 2016, valuation allowance of approximately $7.3 million was provided in the condensed consolidated financial statements.

Liquidity and Capital Resources

As of March 31, 2016, we had cash and cash equivalents of approximately $0.09 million and net working capital of approximately $8.8 million. Collection of receivables and lower production capacity from preparation for further GMP renewal certification 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. There is no assurance that the Company will be able to extend this loan as intended. If the Company is unable to extend this loan and/or obtain additional sources of financing, its operations will be materially negatively affected and it may have to curtail or cease its operations. As of March 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 2016. However, to fund continued expansion of our operation and extend our reach to broader markets, and to acquire additional entities, as we may deem appropriate, we may rely on bank borrowing, if available, as well as capital raises. There is no assurance that we will find such funding on acceptable terms, if at all.

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Net cash provided by operating activities for the three months ended March 31, 2016 was approximately $0.3 million. The Company's decrease in operating cash flows was primarily caused by decrease in accounts receivables and the reduction in the Company's inventory. The decrease in operating cash flows were also a result of reduction in accounts payable and VAT payable resulting in outflows of $0.4 million and $0.1 million, respectively.

Net cash used in financing activities for the three months ended March 31, 2016 was approximately $0.3 million which was the result of the Company's repayment of short term bank borrowings.

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 typically offers is 90 to 120 days credit terms to its customers.

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

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

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

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

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

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

Inventory

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, future pricing and market conditions. If actual future demands, future pricing or market conditions are less favorable than those projected by management, additional inventory write-downs may be required and the differences could be material. Such differences might significantly impact cash flows from operating activities.

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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.

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.

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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 March 31, 2016:

	Payments due by period ($ million)				
	Total	Within 1 year	1-3 years	3-5 years	>5 years
Research and development contracts	0.8	0.8	-	-	-
Payment for intended acquisition of a health product material supplier	0.2	0.2	-	-	-
Short-term bank loans			-	-	-
Payment for intended acquisition of a health product manufacturer	5.0	5.0	-	-	-
Total contractual obligations	$6.0	6.0	$ -	-	-

Inflation

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

Off-Balance Sheet Arrangements

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

To the best of the Company's present understanding, in May 2015, one of the bank accounts of Shaanxi Aoxing Pharmaceutical Company Limited was frozen as a result of actions by certain lenders (not affiliated with the Company) in their attempt to collect the outstanding balance on the personal loan to Mr. Ronghua Wang in the amount of RMB 3 million (USD$0.48 million), which loan was in default. The foregoing debt was personal debt of Mr. Ronghua Wang and no assets of Shaanxi Aoxing Pharmaceutical Company Limited were pledged to secure Mr. Wang's obligations in connection with such personal loan. As of May 9, 2016, Mr. Ronghua Wang had partially repaid the outstanding balance of the loan, thus avoiding the Company's land use rights and buildings be seized and auctioned with proceeds used to settle this debt. It is the Company's present understanding that Mr. Wang is in the process of resolving this matter and settling the outstanding balance on the loan.

To the best of the Company's present understanding, on September 1, 2015, Shaanxi Aoxing Biostar Biotech Ltd. was informed by the People's Court of Shaanxi Province that its properties, valued at $0.54 million (RMB 3.3 million) had been transferred to Mr. Lianhe Wang (not affiliated with the Company) to settle another outstanding personal loan to Mr. Ronghua Wang in the amount of approximately RMB 5.7 million (USD$0.9 million). The foregoing debt was personal debt of Mr. Ronghua Wang and no assets of Shaanxi Aoxing Biostar Biotech Ltd. were pledged to secure Mr. Wang's obligations in connection with such personal loan. According to the Company's PRC legal counsel (Shaanxi Wei Yang Law Firm), this settlement was approved by the parties to the loan agreement. It is the Company's present understanding that Mr. Wang has undertaken to repay the Company in full for the foregoing property transfer by June 2016. There is no assurance that Mr. Ronghua Wang will be able to repay his personal debts in full before his creditors take any other further legal action.

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.

Item 1A. Risk Factors.

Except as set forth 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.

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 year ended December 31, 2015 and for the three months ended March 31, 2016. 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 second quarter of 2016. 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 continue to remain at the present decreased levels. We currently anticipate that the production will resume in the second quarter of 2016. 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 the anticipated production levels may have material adverse effects on our business, operations and financial performance, and may render the Company insolvent.

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

During the three months ended March 31, 2016, neither the Company, nor any of its affiliated purchasers repurchased any of the Company’s securities. The Company did not sell any unregistered securities during the same fiscal period.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine safety Disclosures.

Not Applicable.

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Item 5. Other Information.

None.

Item 6. Exhibits.

31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document

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SIGNATURES

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

BIOSTAR PHARMACEUTICALS, INC.
(Registrant)

Date: May 23, 2016 By: /s/ Ronghua Wang
Ronghua Wang, Chief Executive Officer and President
(Principal Executive Officer)

Date: May 23, 2016 By: /s/ Qinghua Liu
Qinghua Liu, Interim Chief Financial Officer
(Principal Financial and Accounting Officer)