

CHINA PHARMA HOLDINGS, INC.

Form 10-Q

August 14, 2013

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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 June 30, 2013

- 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 001-34471

CHINA PHARMA HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

73-1564807  
(IRS Employer  
Identification No.)

Second Floor, No. 17, Jinpan Road  
Haikou, Hainan Province, China 570216  
(Address of principal executive offices) (Zip Code)

+86- 898-6681-1730 (China)  
(Issuer's telephone number, including area code)

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,



CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Page		
Item 1.	Financial Statements	1
	Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012 (Unaudited)	2
	Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2013 and 2012 (Unaudited)	3
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012 (Unaudited)	4
	Notes to Condensed Consolidated Financial Statements (Unaudited)	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	24
Item 4.	Controls and Procedures	24

PART II OTHER INFORMATION

Item 6.	Exhibits	24
Signatures		25
Exhibits/Certifications		

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited condensed consolidated balance sheets, statements of operations and comprehensive income, and statements of cash flows and the related notes thereto, have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. The financial statements reflect all adjustments, consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair presentation for the interim periods.

The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

The results of operations for the six-month period ended June 30, 2013 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

CHINA PHARMA HOLDINGS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$2,524,523	\$4,029,708
Banker's acceptances	1,714,011	101,570
Trade accounts receivable, less allowance for doubtful accounts of \$9,196,993 and \$4,429,945, respectively	55,355,747	66,175,570
Other receivables, less allowance for doubtful accounts of \$58,209 and \$49,881, respectively	556,014	80,799
Advances to suppliers	5,571,542	4,816,354
Inventory, less allowance for obsolescence of \$5,566,682 and \$1,769,984, respectively	33,710,598	36,359,516
Deferred tax assets	1,690,104	967,671
Total Current Assets	101,122,539	112,531,188
Advances for purchases of intangible assets	40,213,220	39,263,977
Property and equipment, net of accumulated depreciation of \$4,796,901 and \$4,273,373, respectively	15,404,689	9,031,894
Intangible assets, net of accumulated amortization of \$3,275,787 and \$2,944,726, respectively	2,192,794	2,412,854
<b>TOTAL ASSETS</b>	<b>\$158,933,242</b>	<b>\$163,239,913</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Trade accounts payable	\$4,318,202	\$2,841,862
Accrued expenses	258,618	202,185
Accrued taxes payable	690,781	2,426,826
Other payables	1,030,466	1,094,886
Advances from customers	2,005,509	1,945,984
Other payables - related parties	1,354,567	1,354,567
Short-term notes payable	4,859,716	4,761,073
Total Current Liabilities	14,517,859	14,627,383
Long-term deferred tax liability	136,285	95,963
Total Liabilities	14,654,144	14,723,346
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.001 par value; 95,000,000 shares authorized; 43,579,557 shares and 43,579,557 shares outstanding, respectively	43,580	43,580
Additional paid-in capital	23,590,204	23,590,204
Retained earnings	101,628,193	108,904,325
Accumulated other comprehensive income	19,017,121	15,978,458
Total Stockholders' Equity	144,279,098	148,516,567
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$158,933,242</b>	<b>\$163,239,913</b>

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

CHINA PHARMA HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME  
(Unaudited)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2013	2012	2013	2012
Revenue	\$8,026,325	\$14,598,403	\$16,275,712	\$30,685,134
Cost of revenue	5,849,002	10,460,047	11,974,402	21,242,431
Inventory obsolescence	27,178	-	3,720,073	-
Gross profit	2,150,145	4,138,356	581,237	9,442,703
Operating expenses:				
Selling expenses	701,687	881,945	1,513,741	1,776,005
General and administrative expenses	1,456,500	812,741	2,195,927	1,489,143
Bad debt expense	4,752,733	233,139	4,632,803	553,237
Total operating expenses	6,910,920	1,927,825	8,342,471	3,818,385
(Loss) income from operations	(4,760,775)	2,210,531	(7,761,234)	5,624,318
Other income (expense):				
Interest income	1,016	791	2,602	1,481
Interest expense	(92,049 )	(78,472 )	(174,494 )	(156,009 )
Net other income (expense)	(91,033 )	(77,681 )	(171,892 )	(154,528 )
(Loss) income before income taxes	(4,851,808)	2,132,850	(7,933,126)	5,469,790
Income tax benefit (expense)	387,983	(372,932 )	656,994	(903,513 )
Net (loss) income	(4,463,825)	1,759,918	(7,276,132)	4,566,277
Other comprehensive income - foreign currency translation adjustment	2,218,896	106,311	3,038,663	972,885
Comprehensive (loss) income	\$(2,244,929)	\$1,866,229	\$(4,237,469)	\$5,539,162
(Loss) earnings per share:				
Basic	\$(0.10 )	\$0.04	\$(0.17 )	\$0.10
Diluted	\$(0.10 )	\$0.04	\$(0.17 )	\$0.10

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

CHINA PHARMA HOLDINGS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Six Months Ended June 30,	
	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Net (loss) income	\$(7,276,132)	\$4,566,277
Depreciation and amortization	697,549	729,167
Stock based compensation	-	141,721
Bad debt expense	4,632,803	553,237
Deferred income taxes	(656,994 )	(55,634 )
Inventory obsolescence reserve	3,720,073	-
<b>Changes in assets and liabilities:</b>		
Trade accounts receivable	1,672,236	(3,756,396)
Other receivables	(468,509 )	(26,505 )
Advances to suppliers	(648,436 )	1,873,778
Inventory	1,745,256	(4,552,918)
Trade accounts payable	1,403,638	1,768,420
Accrued expenses	(6,086 )	46,311
Accrued taxes payable	(1,767,344)	161,533
Other payables	(9,017 )	46,552
Advances from customers	19,003	398,842
<b>Net Cash Provided by Operating Activities</b>	<b>3,058,040</b>	<b>1,894,385</b>
<b>Cash Flows from Investing Activities:</b>		
Advances for purchases of intangible assets	(4,572,982)	(1,270,399)
Purchase of property and equipment	(49,030 )	(67,722 )
<b>Net Cash Used in Investing Activities</b>	<b>(4,622,012)</b>	<b>(1,338,121)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from related party loan	-	293,004
<b>Net Cash Provided by Financing Activity</b>	<b>-</b>	<b>293,004</b>
Effect of Exchange Rate Changes on Cash	58,787	(28,571 )
<b>Net (Decrease ) Increase in Cash and Cash Equivalents</b>	<b>(1,505,185)</b>	<b>820,697</b>
Cash and Cash Equivalents at Beginning of Period	4,029,708	4,050,854
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$2,524,523</b>	<b>\$4,871,551</b>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	\$167,819	\$151,667
Cash paid for income taxes	1,716,064	588,661
<b>Supplemental Noncash Investing and Financing Activities:</b>		
Accounts payable for purchases of property and equipment	\$153,621	\$144,153
Accounts receivable collected with banker's acceptances	5,756,309	2,026,928
Advances for purchases of equipment paid with banker's acceptances	2,063,840	-
Advances to suppliers paid with banker's acceptances	-	402,338



Inventory purchased with banker's acceptances	2,099,243	1,248,820
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The accompanying notes are an integral part of these condensed consolidated financial statements.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

Organization and Nature of Operations – China Pharma Holdings, Inc., a Nevada corporation, owns 100% of Onny Investment Limited (“Onny”), a British Virgin Islands corporation, that in turn owns 100% of Hainan Helpson Medical & Biotechnology Co., Ltd (“Helpson”), a corporation organized under the laws of the People's Republic of China (the “PRC”). China Pharma Holdings, Inc. and its subsidiaries are referred to herein as the Company.

The Foreign Investment Industrial Catalogue (the “Catalogue”) jointly issued by the China’s Ministry of Commerce and the National Development and Reform Commission (as the latest version is the year 2012 version, effective January 30, 2012) classified various industries/businesses into three different categories: (i) encouraged for foreign investment; (ii) restricted to foreign investment; and (iii) prohibited from foreign investment. For any industry/business not covered by any of these three categories, they will be deemed industries/businesses permitted for foreign investment. A typical foreign investment ownership restriction in the pharmaceutical industry is that a foreign investment enterprise (the “FIE”) shall not have the whole or majority of its equity interests owned by a foreign owner if the FIE establishes more than 30 branch stores and distributes a variety of brands in those franchise stores, which is not the case of the Company’s business.

Helpson manufactures and markets generic and branded pharmaceutical products as well as biochemical products primarily to hospitals and private retailers located throughout the PRC. The Company believes Helpson’s business is not subject to any ownership restrictions prescribed under the Catalogue. Onny acquired 100% of the ownership in Helpson from Helpson’s three former shareholders on May 25, 2005 by entry into an Equity Transfer Agreement with such three parties on May 25, 2005. The transaction was approved by the Commercial Bureau of Hainan Province on June 12, 2005 and Helpson received the Certificate of Approval for Establishing of Enterprises with Foreign Investment in the PRC on the same day and its business license evidencing its WFOE (Wholly Foreign Owned Enterprise) status on June 21, 2005.

The Company has and continues to acquire well-accepted medical formulas to a diverse portfolio of Western and Chinese medicines.

Consolidation and Basis of Presentation – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and are expressed in United States dollars. The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Helpson’s functional currency is the Chinese Renminbi. Helpson’s revenue and expenses are translated into United States dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. Gains or losses from translating Helpson’s financial statements are included in accumulated other comprehensive income, which is a component of stockholders’ equity. Gains and losses arising from transactions denominated in a currency other than the functional currency of the entity that is a party to the transaction are included in the results of operations.

Condensed Financial Statements – The accompanying unaudited condensed consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the

“Commission”). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Management of the Company (“Management”) believes the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Commission on March 14, 2013.

These unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of Management, are necessary to present fairly the consolidated financial position and results of operations of the Company for the periods presented. Operating results for the six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Accounting Estimates - The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Basic and Diluted (Loss) Earnings per Common Share - Basic (loss) earnings per common share is computed by dividing net (loss) income by the weighted-average number of common shares outstanding during the period. Diluted (loss) earnings per share is calculated to give effect to potentially issuable dilutive common shares.

The following table is a presentation of the numerators and denominators used in the calculation of basic and diluted (loss) earnings per share:

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2013	2012	2013	2012
Net (loss) income	\$(4,463,825 )	\$1,759,918	\$(7,276,132 )	\$4,566,277
Basic weighted-average common shares outstanding	43,579,557	43,571,590	43,579,557	43,550,573
Effect of dilutive securities:				
Warrants	-	-	-	-
Options	-	-	-	-
Diluted weighted-average common shares outstanding	43,579,557	43,571,590	43,579,557	43,550,573
Basic (loss) earnings per share	\$(0.10 )	\$0.04	\$(0.17 )	\$0.10
Diluted (loss) earnings per share	\$(0.10 )	\$0.04	\$(0.17 )	\$0.10

The following potential common shares were not included in the computation of diluted earnings per share as their effect would have been anti-dilutive:

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2013	2012	2013	2012
Warrants with exercise prices of \$3.00 to \$3.80 per share	-	150,000	-	150,000
Options with an exercise price of \$2.54 to \$3.47 per share	-	50,000	-	50,000
Total	-	200,000	-	200,000

#### NOTE 2 – PRODUCT RECALL

In March 2013, the China Food and Drug Administration (“CFDA”) issued a nationwide notice (the “CFDA Notice”) for the cessation of the production, sale and use of Buflomedil effective immediately. The CFDA Notice was a result of the reevaluation done by the CFDA based on the indications from the recent China and international research materials, which found that the side effect risks of Buflomedil to the nerve system and the cardiovascular system have surpassed its clinical treatment effect risks. The CFDA Notice was applicable to all the manufacturers and distributors in China who are in the business of the production and sale of Buflomedil-related products.

Pursuant to the CFDA Notice, the Company ceased the production and sale of Buflomedil-based products and ceased all promotional and marketing activities for Buflomedil-based products. Furthermore, the Company recognized an inventory obsolescence allowance of approximately \$3.7 million for Buflomedil-related raw materials and finished goods inventory. This was recorded as inventory obsolescence on the accompanying statement of operations for the six months ended June 30, 2013.

In addition, the Company recalled Buflomedil-based products from the market. It authorized the return of its previously sold Buflomedil-related products through April 30, 2013. The loss from the refunds to customers was \$27,507 and was recognized as a reduction of revenues for the six months ended June 30, 2013. Under CFDA regulatory provisions, the CFDA notice does not impose legal liability to the manufacturers of Buflomedil as long as they act pursuant to the CFDA Notice to cease the production, sale and use of Buflomedil and destroy such finished goods immediately.

Pursuant to the CFDA Notice, the CFDA revoked the production licenses for Buflomedil-based products. The carrying value of the Company's Buflomedil-related intangible assets was zero; therefore, no impairment of the Company's intangible assets was necessary.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 3 - INVENTORY

Inventory consisted of the following:

	June 30, 2013	December 31, 2012
Raw materials	\$32,733,860	\$30,198,816
Finished goods	6,543,420	7,930,684
	39,277,280	38,129,500
Obsolescence reserve	(5,566,682 )	(1,769,984 )
Total Inventory	\$33,710,598	\$36,359,516

## NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30, 2013	December 31, 2012
Permit of land use	\$456,275	\$447,013
Building	2,469,245	2,419,125
Plant, machinery and equipment	6,559,635	6,381,209
Motor vehicle	150,127	147,080
Office equipment	228,966	222,273
Construction in progress	10,337,342	3,688,567
Total	20,201,590	13,305,267
Less: accumulated depreciation	(4,796,901 )	(4,273,373 )
Property and Equipment, net	\$15,404,689	\$9,031,894

Construction in progress consists primarily of the construction of a new production facility and the acquisition of related equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Life - years
Permit of land use	40 - 70
Building	20 - 35
Plant, machinery and equipment	10
Motor vehicle	5 - 10
Office equipment	3-5

For the six months ended June 30, 2013 and 2012, depreciation expense was \$430,368 and \$424,167, respectively.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets represent the cost of medical formulas approved for production by the CFDA in China. During the six months ended June 30, 2013 or 2012, the Company did not obtain CFDA production approval for any medical formula and therefore there were no costs reclassified from advances to medical formulas.

Approved medical formulas are amortized from the date CFDA approval is obtained over their individually identifiable estimated useful life, which are from ten to thirteen years. It is at least reasonably possible that a change in the estimated useful lives of the medical formulas could occur in the near term due to changes in the demand for the drugs and medicines produced from these medical formulas. For the six months ended June 30, 2013 and 2012, amortization expense relating to intangible assets was \$267,181 and \$305,000, respectively. Medical formulas typically do not have a residual value at the end of their amortization period.

The Company evaluates each approved medical formula for impairment at the date of CFDA approval, when indications of impairment are present and at the date of each financial statement. The Company's evaluation is based on an estimated undiscounted net cash flow model, considering currently available market data for the related drug and the Company's estimated market share. If the carrying value of the medical formula exceeds the estimated future net cash flows, an impairment loss is recognized for the excess of the carrying value over the discounted estimated future net cash flows. As a result of the evaluation, the Company has determined that each medical formula continues to provide benefits to the Company and no impairment was recognized during the six months ended June 30, 2013 or 2012.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

At June 30, 2013 and December 31, 2012, intangible assets consisted solely of CFDA approved medical formulas as follows:

	June 30, 2013	December 31, 2012
Gross carrying amount	\$ 5,468,581	\$ 5,357,580
Accumulated amortization	(3,275,787)	(2,944,726)
Net carrying amount	\$ 2,192,794	\$ 2,412,854

#### NOTE 6 – ADVANCES FOR PURCHASES OF INTANGIBLE ASSETS

In order to expand the number of medicines manufactured and marketed by the Company, the Company has entered into contracts with independent laboratories for the purchase of medical formulas. Although CFDA approval has not been obtained for these medical formulas as of the dates of the contracts, the object of the contracts is for the purchase of CFDA-approved medical formulas once the CFDA approval process is completed. Some of the medical formulas currently in the CFDA approval process also come with patents. The Company has received the title for two patents. The related patents have not expired.

Prior to entering into the contracts, the laboratories typically have completed all required research and development to determine the medical formula for and the method of production of the generic medicine. Since the laboratories are not eligible to apply for CFDA production approval, they usually collaborate with a production facility (such as the Company) and apply for the production approval in the name of the manufacturer. The Company buys the final products with the production approval from the CFDA and the laboratories have to complete the CFDA approval process from the point of the contract.

A typical CFDA approval process for the production of a generic medical product involves a number of steps that generally requires three to five years. If the medical formula is purchased at the point when the generic medical product receives the CFDA's approval for clinical study, which is very typical for the Company, the clinical study that follows will usually take from one and a half to three years to complete. After the clinical study is completed, the results are submitted to the CFDA and a production approval application is filed with the CFDA. In most cases, it will take between eight to eighteen months to prepare and submit the production approval application and obtain CFDA approval. Upon approving the generic medical product, the CFDA issues a production certificate and the Company can produce and sell the generic medical product. As a result of this process, CFDA approval is expected to be received in approximately two to five years from the dates of the medical formula contracts. However, this process can, and in some cases has, taken longer than five years to obtain CFDA approval.

Under the terms of the contracts, the laboratories are required to obtain production approval (on behalf of the Company) for the medical formulas from the CFDA. Management monitors the status of each medical formula on a regular basis in order to assess whether the laboratories are performing adequately under the contracts. If a medical product is not approved by the CFDA, as evidenced by their issuance of a denial letter, or if the laboratory breaches the contract, the laboratory is required under the contract to provide a refund to the Company of the full amount of the payments made to the laboratory for that formula, or the Company can require the application of those payments to another medical formula with the same laboratory. As a result of the refund right, the Company is purchasing an approved medical product. Accordingly, payments made prior to the issuance of production approval by the CFDA



are recorded as advances for purchases of intangible assets.

To date, no formula has failed to receive CFDA production approval nor has the Company been informed or become aware of any formula that may fail to receive such approval. However, there is no assurance that the medical products will receive production approval and if the Company does not receive such approval, it will enforce its contractual rights to receive the refund from the laboratory or have the payments applied to another medical formula with the same laboratory.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

At June 30, 2013, the Company was obligated to pay laboratories and others approximately \$7,057,338 upon completion of the various phases of contracts to provide CFDA production approval of medical formulas.

NOTE 7 – RELATED PARTY TRANSACTIONS

Total advances owing to a board member were \$1,354,567 and \$1,354,567 as of June 30, 2013 and December 31, 2012, respectively, and are recorded as other payables – related parties on the accompanying condensed consolidated balance sheets. The advances bear interest at a rate of 1.0% per year. Total interest expense relating to these advances of \$3,386, \$2,372, \$6,772 and \$4,342 was recognized for the three and six months ended June 30, 2013 and 2012, respectively.

NOTE 8 – NOTES PAYABLE

On October 30, 2012, the Company entered into a revolving line of credit with a bank in the amount of RMB 30,000,000. The related note payable bears interest at an annual rate of 6.90% (based upon 115% of the PRC government's current short term rate of 6.00%). Advances on the line of credit are due one year from the date of the advance and are collateralized by certain land use rights, buildings and accounts receivable. The outstanding balance due under the revolving line of credit was RMB 30,000,000 (\$4,859,716) as of June 30, 2013. The Company has no additional amounts available to it under the line of credit. This amount has been classified as short-term notes payable in the accompanying consolidated balance sheet at June 30, 2013.

Fair Value of Notes Payable – Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the carrying amounts of notes payable outstanding as of June 30, 2013 and December 31, 2012 approximated their fair value because of either the immediate or short-term maturity of these financial instruments or because the underlying instruments bear interest rates that approximated current market rates.

NOTE 9 - INCOME TAXES

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in operations in the period that includes the enactment date.

Undistributed earnings of Helpson, the Company's foreign subsidiary, since its acquisition, amounted to approximately \$113.4 million at June 30, 2013. Those earnings, as well as the investment in Helpson of approximately \$23.3 million, are considered to be indefinitely reinvested and, accordingly, no U.S. federal or state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. federal and state income taxes (net of an adjustment for foreign tax credits) and withholding taxes payable to the PRC. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits may be available to reduce a portion of the U.S. tax liability.

Under current tax law in the PRC, the Company is and will be subject to the following enterprise income tax rates:

Year	Enterprise Income Tax Rate
2013	15%
2014 and after	25%

The provision for income taxes consisted of the following:

9

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CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

	Three months ended March 31,		Three months ended March 31,	
	2013	2012	2013	2012
Current	\$-	\$394,254	\$-	\$959,147
Deferred	(387,983 )	(21,322 )	(656,994 )	(55,634 )
Total income tax (benefit) expense	\$(387,983 )	\$372,932	\$(656,994 )	\$903,513

The Company has net operating loss carryforwards for PRC tax purposes of approximately \$3,350,000. The related deferred tax asset of \$502,750 does not meet the more-likely-than-not criteria of realization and the Company has provided a valuation allowance in this same amount against the full amount of the deferred tax asset.

The Company has also incurred various other taxes, comprised primarily of business taxes, value-added taxes, urban construction taxes, education surcharges and others. Any unpaid amounts are reflected on the balance sheets as accrued taxes payable.

#### NOTE 10 – FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, a hierarchy has been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows: Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure the value of the banker's acceptance notes it holds. The banker's acceptance notes are recorded at cost which approximates fair value. The Company held the following assets recorded at fair value as of June 30, 2013 and December 31, 2012:

Description	June 30, 2013	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Banker's acceptance notes	\$ 1,714,011	\$ -	\$ 1,714,011	\$ -
Total	\$ 1,714,011	\$ -	\$ 1,714,011	\$ -

Description	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Level 3

	December 31, 2012			
Banker's acceptance notes	\$ 101,570	\$ -	\$ 101,570	\$ -
Total	\$ 101,570	\$ -	\$ 101,570	\$ -

NOTE 11 - STOCKHOLDERS' EQUITY

Preferred and Common Stock – The total number of authorized shares is 95,000,000 shares of common stock and 5,000,000 shares of preferred stock. The preferred stock may be issued in series with such designations, preferences, stated values, rights, qualifications or limitations as determined solely by the Company's board of directors.

Warrants – During the six months ended June 30, 2013, warrants to purchase an aggregate of 150,000 shares of the Company's common stock at exercise prices ranging from \$3.00 to \$3.80 per share expired unexercised. At June 30, 2013 there are no warrants outstanding.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Stock and Stock Options – On November 12, 2010, the Company’s Board of Directors adopted, and on December 22, 2010 its stockholders approved, the 2010 Long-Term Incentive Plan (the “2010 Incentive Plan”), which gave the Company the ability to grant stock options, restricted stock, stock appreciation rights and performance units to its employees, directors and consultants, or those who will become employees, directors and consultants of the Company and/or its subsidiaries. The 2010 Incentive Plan currently allows for equity awards of up to 4,000,000 shares of common stock. Through June 30, 2013, 75,000 shares of common stock had been granted under the 2010 Incentive Plan. During the six months ended June 30, 2013, options to purchase an aggregate of 25,000 shares of stock at an exercise price of \$2.54 per share expired unexercised.

There were no securities issued from the 2010 Incentive Plan during the six months ended June 30, 2013.

At June 30, 2013, there was no remaining unrecognized compensation expense related to stock options or restricted stock grants.

NOTE 12 – CONTINGENCIES

Economic environment - Substantially all of the Company's operations are conducted in the PRC, and therefore the Company is subject to special considerations and significant risks not typically associated with companies operating in the United States of America. These risks include, among others, the political, economic and legal environments and fluctuations in the foreign currency exchange rate. The Company's results from operations may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. The unfavorable changes in global macroeconomic factors may also adversely affect the Company’s operations.

In addition, all of the Company's revenue is denominated in the PRC's currency of Renminbi (RMB), which must be converted into other currencies before remittance out of the PRC. Both the conversion of RMB into foreign currencies and the remittance of foreign currencies abroad require approval of the PRC government.

NOTE 13 – CONCENTRATIONS

At June 30, 2013, one customer accounted for 11.7% of accounts receivable. At December 31, 2012, no customer accounted for more than 10.0% of accounts receivable.

For the six months ended June 30, 2013, two customers accounted for 10.3% and 10.2% of sales, respectively. For the six months ended June 30, 2012, no customer accounted for more than 10% of sales.

For the six months ended June 30, 2013, purchases from one supplier accounted for 26.9% of raw material purchases. For the six months ended June 30, 2012, purchases from two suppliers accounted for 14.6% and 11.0% of raw material purchases, respectively.

NOTE 14 – SUBSEQUENT EVENTS

On July 11, 2013 the Company drew RMB 30,000,000 (approximately \$4.86 million) down from a construction loan facility dated June 21, 2013. The loan facility is for an eight-year term, commencing from July 11, 2013, the actual draw-down date. The total loan amount is RMB 80,000,000 (approximately \$13 million) from the same bank that provides the line of credit as discussed in Note 8. The proceeds of the loan are to be used for and are collateralized by the construction of the Company's new production facility and equipment. The loan currently bears interest at 7.205%, based upon 110% of the PRC government's eight-year term rate effective on the actual draw-down date, subject to annual adjustments based on 110% of the floating rate for the same type of loan on the anniversary from the draw-down date and its subsequent anniversary dates. The loan requires interest only payments for the first two years. Beginning July 11, 2015 the balance of the principal is due in installments over the next six years through July 11, 2021. The Company is required to draw down the entire loan amount by December 31, 2014.

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

The statements contained in this report with respect to our financial condition, results of operations and business that are not historical facts are forward-looking statements. Forward-looking statements can be identified by the use of forward-looking terminology, such as "anticipate", "believe", "expect", "plan", "intend", "seek", "estimate", "project", "could", "may" or the negative thereof or other variations thereon, or by discussions of strategy that involve risks and uncertainties. Management wishes to caution the reader of the forward-looking statements that any such statements that are contained in this report reflect our current beliefs with respect to future events and involve known and unknown risks, uncertainties and other factors, including, but not limited to, economic, competitive, regulatory, technological, key employees, and general business factors affecting our operations, markets, growth, services, products, licenses and other factors, some of which are described in this report and some of which are discussed in our other filings with the Securities and Exchange Commission. These forward-looking statements are only estimates or predictions. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of risks facing our company, and actual events may differ from the assumptions underlying the statements that have been made regarding anticipated events.

These risk factors should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. All written and oral forward looking statements made in connection with this report that are attributable to our company or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by applicable law or regulation.

#### Business Overview & Recent Developments

China Pharma Holdings, Inc. is a specialty pharmaceutical company that develops, manufactures, and markets pharmaceutical products for human use for a wide range of high incidence and high mortality conditions in China, including cardiovascular, central nervous system ("CNS"), infectious and digestive diseases. The Company has a broad and expanding distribution network across 30 provinces, municipalities and autonomous regions. The Company is currently organized under the laws of the State of Nevada in the United States. Hainan Helpson Medical & Biotechnology Co., Ltd. (Helpson), located in Haikou City, Hainan Province, China, is a wholly-owned subsidiary of China Pharma Holdings, Inc.

In the second quarter of 2013, we continued to execute our prudent marketing strategy to a more stringent screening of existing and potential distributors and hospital customers in terms of speed of payment in order to gradually improve our trade pattern, especially in terms of the collection of our accounts receivable. This strategy temporarily impacts our sales in the current period.



The CFDA promulgated Good Manufacturing Practices for Pharmaceutical Products (2010 revised version) (the “new GMP”) on February 12, 2011, which became effective on March 1, 2011. The new GMP standards outline the basic principles and standards for the manufacturing of pharmaceutical products and the management of quality controls in the manufacturing process in the PRC. Pursuant to those mandatory requirements, the upgrading of our two injectable product lines must be accomplished by the end of 2013. While management expects to see the completion of such product lines within the required time line, we cannot assure you it will in fact occur. To the extent delay is caused by factors beyond our control, it may have a material adverse effect on our business, financial condition and results of operations. We already completed the overall architectural structure of our new five-floor facility. We are progressing according to our plan to continue to construct the new GMP facility and ancillary projects. We have also made down payments for the major equipment and facilities for the new production lines in the new building. We are confident that the new-GMP upgrading will be accomplished in good quality and our existing production capacity will also be expanded significantly.

The products in our pipe-line progressed slowly but steadily along the development process, and are getting closer to product launch. The CFDA is also revising its production approval criteria and processes, resulting in longer approval time for new production applications across all types of products. In some cases they are adding additional requirements for products already under review.

The following is a list of the current status of some of our pipeline products:

• Cadesartan. We received production approval from the CFDA for Candesartan, a front-line drug therapy for the treatment of hypertension in November 2012. We plan to launch this product during 2013.

• Antibiotic Combination. We completed the Phase I clinical trials of our novel cephalosporin-based combination antibiotic in the third quarter of 2010. We are currently in Phase II of the clinical trial.

• Rosuvastatin. Rosuvastatin is a generic form of Crestor, a drug for indication of high blood cholesterol level. Clinical trials for this generic drug were completed in the fourth quarter of 2010 and we have submitted an application for production approval.

• Heart Disease Drug. We have a liquid oral medicine for the treatment of coronary heart disease in our new product pipeline. This product comes with a patented Traditional Chinese Medicine (TCM) formula and is currently in Phase III clinical trials. Due to the improved regulatory requests for clinical works, we adjusted our anticipated completion time frame for the clinical trials work for this product to late 2013.

## Market Trends

The Chinese pharmaceutical industry has been a key contributor to the PRC’s economic growth. Chinese pharmaceutical market reached CNY 926.1 billion in 2012 according to "Medicine Blue Book: China Pharmaceutical Market Report (2012)" (“Blue Book”) published by Chinese Academy of Social Sciences (CASS) on December 28, 2012. The Blue Book noted that the compound growth rate of China’s pharmaceutical market was over 20% from 2005 to 2010; and forecasted that it would continue its rapid expansion at an average rate of 12% from 2013 to 2020. The Blue Book pointed out that Chinese pharmaceutical market showing features of rapid expansion, fierce competition, low concentration, and greatly influenced by government policies; and the pharmaceutical market expansion is supported by increased demands for medicine associated with population aging, and improved social welfare and enhanced residents’ purchasing power along with economic development.



The Healthcare Reform program announced by the Chinese government in late 2009 is having a significant impact on all healthcare related industries in China, including the pharmaceutical industry. Overall, the government plans to provide a basic, universal healthcare system to all citizens of China. We believe volume expansion will continue as government subsidies to rural communities expand further. While pricing is generally set at the central government level, provincial government intervention has added complexity to the pricing-volume interaction. In addition to EDL products, we have also seen pricing pressure on most of the drugs we sell. While these changes have more impact on pharmaceutical distribution companies, manufacturers of pharmaceutical products are also affected. We believe the general implication is that gross margins for pharmaceutical products will continue to be under pressure for some time. That being said, a pharmaceutical manufacturer with experienced management and the ability to react quickly to changes will not only survive but thrive in this environment.

## Results of Operations

### Three Months Ended June 30, 2013 and 2012

#### Revenue

For the three months ended June 30, 2013, our sales revenue was \$8.0 million, a decrease of 45%, compared to \$14.6 million in the previous year period.

Set forth below are our revenues by product category in millions USD for the three months ended June 30, 2013 and 2012.

Product Category	Three Months Ended June 30		Net Change	% Change
	2013	2012		
CNS Cerebral & Cardio Vascular	\$ 2.0	\$ 4.1	-\$ 2.1	-52%
Anti-Viro/ Infection & Respiratory	\$ 4.1	\$ 6.7	-\$ 2.6	-39%
Digestive Diseases	\$ 1.0	\$ 1.7	-\$ 0.7	-42%
Other	\$ 1.0	\$ 2.1	-\$ 1.1	-54%

Given the capital expenditure pressure from 2013 new GMP upgrade project, we have to control credit expansion in the market, this tightening marketing strategy has negatively impacted our revenue. Sales decreased throughout our major product categories. The most significant revenue decrease in terms of dollar amount was in our “Anti-Viro/Infection & Respiratory” product category, which generated \$4.1 million in sales revenue in the three months ended June 30, 2013 compared to \$6.7 million a year ago, a decrease of \$2.6 million. This decrease was mainly due to the decrease in the sales of our two antibiotic products, Roxithromycin and Clarithromycin. Sales of the “CNS Cerebral & Cardio Vascular” category decreased by \$2.1 million to \$2.0 million in the three months ended June 30, 2013 compared to \$4.1 million in the previous year period. This was mainly due to decrease in sales of Gastrodin and the CFDA notice on Bufomedil. The CFDA issued a nationwide notice for the cessation of the production, sale and use of Buflomedil effective immediately in March 2013. The Company ceased the production and sale of this product. Our “Digestive Diseases” category generated \$1.0 million of sales in the three months ended June 30, 2013, compared to \$1.7 million in the previous year period, or a decrease of \$0.7 million. Our “Other” product category sales fell to \$1.0 million from \$2.1 million, a decrease of \$1.1 million.

In the three months ended June 30, 2013, revenue breakdown by product category showed some changes mainly due to the CFDA notice and sales decrease of our main antibiotics. Sales of the “CNS, Cerebral & Cardio Vascular” category represented 25% and 28% of total sales in the three months ended June 30, 2013 and 2012 respectively. Sales of the “Anti-Viro & Respiratory” products category represented 51% and 46% of total sales in the three months ended June 30, 2013 and 2012. The “Digestive Diseases” category represented 12% and 12% of total revenue in the three months ended June 30, 2013 and 2012 respectively. The “Other” category represented 12% and 14% of total revenue in the three months ended June 30, 2013 and 2012 respectively.

#### Cost of Revenue

For the three months ended June 30, 2013, our cost of revenue was \$5.8 million, or 73% of total revenue, which represented a decrease of \$4.7 million from \$10.5 million, or 72% of total revenue, in the three months ended June 30, 2012, a decrease of 44%. The decrease in cost of revenue during the second quarter of 2013 was almost proportionate to the decrease in revenue.

#### Inventory Obsolescence

The Company recognized an inventory obsolescence expense in the amount of \$27,178 for the three months ended June 30, 2013. There was no comparable expense for the three months ended June 30, 2012.

#### Gross Profit and Gross Margin

Gross profit for the three months ended June 30, 2013 was \$2.2 million, while gross profit for the three months ended June 30, 2012 was \$4.1 million. Our gross profit margin in the second quarter of 2013 was 27%, compared to 28% in the second quarter of 2012. The Healthcare Reform instituted by the Chinese government since 2009 has resulted in margin compression in most pharmaceutical products on the markets today, especially in the generic space that many of our products are in. The decrease of sales and continued increases of the purchase price of raw materials attributed to the decrease of gross profit. Going forward, we expect to see continued pricing pressure on most products, but new products such as Candesartan could help to support overall gross margin once it is launched.

#### Selling Expenses

Our selling expenses for the three months ended June 30, 2013 were \$0.7 million, a decrease of approximately \$0.2 million, compared to \$0.9 million in the same period last year. Selling expenses accounted for 9% of the total revenue in the three months ended June 30, 2013 compared to 6% in the three months ended June 30, 2012. Due to many adjustments in our selling processes from healthcare reform policies, despite the decrease in sales, we still needed to maintain necessary personnel and expenses to support the sales and collection of accounts receivable.

### General and Administrative Expenses

Our general and administrative expenses for the three months ended June 30, 2013 were \$1.5 million, an increase of \$0.7 million from \$0.8 million for the same period of 2012. General and administrative expenses accounted for 18% and 6% of our total revenues for the three months ended June 30, 2013 and 2012, respectively. This increase was mainly due to the expenses incurred related to technology upgrades and production process improvements of some of our existing marketed products in this period.

### Bad Debt Expense and Account Receivables

In general, our normal credit or payment terms extended to customers are 90 days. This has not changed in recent years. Due to the peculiarity of the Chinese pharmaceutical market environment, deferred payments to pharmaceutical companies by state-owned hospitals and local medicine distributors are a normal phenomenon. Our customers are primarily pharmaceutical distributors who sell to mostly government-backed hospitals. Therefore the age of our receivables from our customers tends to be long. Although these customers typically pay after the due date of the receivables, since the majority of hospitals in China are backed by the government, management believes that the deferred payments from state-owned hospitals are secure and will eventually be collected. So far, we have always been able to collect our receivables and have not written-off any receivables in our 19-year history of doing business with hospitals.

The amount of accounts receivable that were past due (or the amount of accounts receivable that were more than 90 days old) was \$50.3 million and \$62.1 million as of June 30, 2013 and December 31, 2012, respectively. The following table illustrates our accounts receivable aging distribution in terms of percentage of total accounts receivable as of June 30, 2013 and December 31, 2012:

	June 30,		December	
	2013		31,	
			2012	
1 - 90 Days	9.1	%	12.1	%
90 - 180 Days	15.4	%	12.8	%
180 - 360 Days	22.9	%	32.4	%
360 - 720 Days	44.4	%	42.7	%
> 720 Days	8.1	%	0	%
Total	100	%	100	%

In order to support the capital expenditure need from new-GMP upgrading, we adjusted our marketing strategy to favor distributors with good accounts receivable collection track, and gradually decrease the credit level granted to distributors in general. Besides that, our sales revenue decreased in the recent quarters. These two factors materially impacted the numerator and denominator for the calculation of the aging distribution table above, causing the accounts receivable over two-years-old to be a larger share of the total balance.

In addition, although Healthcare reform implementation has been underway for some time, we observed a delay in its impact on the payment cycle of accounts receivable.

Although we have not had to write off any receivables thus far in our history, we do set aside an allowance for doubtful accounts. Our bad debt allowance estimate is currently the sum of 3.5% of accounts receivable that are less than 360 days old, 10% of accounts receivable that are between 360 days and 720 days old and 100% of accounts receivable that are greater than 720 days old.

For the three months ended June 30, 2013, the Company recognized \$4,752,733 bad debt expense, compared to \$233,139 in the same period of 2012. The increase was primarily a result of our large accounts receivables aging more than 720 days, as the table above indicates. Please see additional discussion on bad debt expense under "Bad Debt Expense" of "Six Months Ended June 30, 2013 and 2012" hereafter.

#### Income (Loss) from Operations

Our operating loss for the three months ended June 30, 2013 was \$4.8 million, compared to operating income of \$2.2 million in the three months ended June 30, 2012, a decrease of \$7.0 million. The main reasons for the decrease were lower revenue and increase in bad debt expense.

#### Net Interest Expense

Net interest expense for the three months ended June 30, 2013 and 2012 was \$91,033 and \$77,681 respectively.

#### Income Tax Benefit (Expense)

In the three months ended June 30, 2013 and 2012, we paid income tax at the rate of 15%. Income tax benefit was \$0.4 million in the three months ended June 30, 2013; and income tax expense was \$0.4 million for the three months ended June 30, 2012. As a result of lower revenue, we have net operating loss carry forwards of \$4.9 million which, under Chinese tax law can be "carried forward" for 5 years. We believe that we will have sufficient taxable income in the near future to utilize this tax benefit. We obtained the "National High-Tech Enterprise" status ("National HT Status") from the PRC government in the fourth quarter of 2010. With this designation, we are entitled to a preferential tax rate of 15% for the years ending December 31, 2011, 2012 and 2013, which is notably lower than the statutory income tax rate of 25%.

## Net Income (Loss)

Net loss for three months ended June 30, 2013 was \$4.5 million, a decrease of \$6.2 million, from the net income of \$1.8 million in the three months ended June 30, 2012. The decrease in net income was mainly due to the decrease in revenue and the increase in bad debt expense.

For the three months ended June 30, 2013, earnings per basic and diluted common share was (\$0.10) per share, compared to \$0.04 per share in the previous year period.

The number of basic and diluted weighted average outstanding shares used to calculate earnings per share were 43,579,557 for the three months ended June 30, 2013, the same for the three months ended June 30, 2012.

## Six Months Ended June 30, 2013 and 2012

## Revenue

For the six months ended June 30, 2013, our sales revenue decreased by \$14.4 million, or 47%, to \$16.3 million from the \$30.7 million we generated in the corresponding period of 2012.

Set forth below are our revenues by product category in millions USD for each of the six months ended June 30, 2013 and 2012.

## Sales Revenue by Major Category (Dollar in Millions)

Product Category	Six Months Ended June 30,		Net Change	% Change
	2013	2012		
CNS Cerebral & Cardio Vascular	\$ 4.1	\$ 8.9	-\$ 4.8	-54%
Anti-Viro/ Infection & Respiratory	\$ 8.7	\$ 13.5	-\$ 4.8	-35%
Digestive Diseases	\$ 1.8	\$ 4.2	-\$ 2.4	-57%
Other	\$ 1.6	\$ 4.1	-\$ 2.5	-60%

During the first half of fiscal 2013, our overall sales revenue decreased by 47% on a year-over-year basis, led by the CNS Cerebral & Cardio Vascular and Anti-Viro/Infection & Respiratory categories. Sales in the CNS Cerebral & Cardio Vascular category drop by \$4.8 million, or 54%, to \$4.1 million from \$8.9 million. Our performance in this category was impacted by sales drop of Gastrodin Injection due to market condition and sales of Buflomedil Hydrochloride due to the CFDA Notice. Sales in Anti-Viro/ Infection & Respiratory category drop by \$4.8 million, or 35%, to \$8.7 million from \$13.5 million. Our performance in this category was impacted by the sales decrease of our two main antibiotic products, Roxithromycin and Clarithromycin. Sales of the "Other" category decreased by \$2.5 million, or 60%, to \$1.6 million from \$4.1 million. The Digestive Diseases category decreased by \$2.4 million, or 57%, to \$1.8 million from \$4.2 million.

### Gross Margin and Gross Profit

Gross profit for the six months ended June 30, 2013 was \$0.6 million, which was approximately 94% lower compared to \$9.4 million in the first six months of 2012. Our gross margin for the first half of 2012 was 4%, compared to 31% in the corresponding six months of 2012. Without the effect of inventory obsolescence in the first half of 2013, management estimates that our gross profit would have been approximately \$4.3 million, and gross margin would have been 26% in the first half of 2013.

While sales growth in our new and relatively higher-margin products helped to support overall margin, it was not enough to offset the sales growth of our lower-margin products. In the coming quarters, we expect to see continued pricing pressures, but believe our new products, such as Candesartan, can help to support overall gross margin once it is launched.

### Selling Expenses

Our selling expenses for the six months ended June 30, 2012 were \$1.5 million, a decrease of 15%, compared to \$1.8 million for the six months ended June 30, 2012. Selling expenses were approximately 9% of revenue in the first half of 2013 compared to 6% during the comparable period a year ago.

### General Administrative Expenses

Our general and administrative expenses for the six months ended June 30, 2013 were \$2.2 million, an increase of \$0.7 million, or 47%, compared to \$1.5 million for the same period in 2012.

### Bad Debt Expense

Our bad debt expense for the six months ended June 30, 2013 was \$4.6 million, compared to \$0.6 million for the same period in 2012. Please see additional discussion of bad debt and account receivables in the section above named "Bad Debt Expense and Account Receivables".

To the extent that our current allowance for doubtful accounts is lower than that of the previous period, we recognize a bad debt benefit for the difference during the current period, and when the current allowance is higher than that of the previous period, we recognize a bad debt expense for the difference. The allowance for doubtful accounts was \$9.2 million and \$4.4 million as of June 30, 2013 and December 31, 2012, respectively. The increase in the allowance was mainly due to the increase in our accounts receivable aging. The changes in the allowance for doubtful accounts as of June 30, 2013 and 2012 were as follows (there were no write-offs or recoveries):

### Changes in the Allowance for Doubtful Accounts:

	For the Six Months Ended	
	June 30,	
	2013	2012
Balance, Beginning of Period	\$4,429,945	\$3,536,405
Bad debt expense	4,632,803	553,237
Foreign currency translation adjustment	134,245	17,379
Balance, End of Period	\$9,196,993	\$4,107,021





### Income from Operations

Our operating loss for the six months ended June 30, 2013 was approximately \$7.8 million, compared to an operating income of \$5.6 million for the same period in 2012, which represented a drop of \$13.4 million, or 238%. The decreasing operating income performance was primarily due to lower revenue, higher bad debt expense in the current period compared to the corresponding period one year ago, in addition to the inventory obsolescence incurred in the first half 2013.

### Income Tax Benefit (Expense)

Income tax benefit for the six months ended June 30, 2013 was \$0.7 million, compared with income tax expense of \$0.9 million in the first half a year ago.

### Net (Loss) Income

Our net loss for the six months ended June 30, 2013 was \$7.3 million, which represented a decrease of \$11.9 million, or approximately 259%, from net income of \$4.6 million for the six months ended June 30, 2012. This decrease was mainly due to the decrease in revenue, increase in bad debt expense, and inventory obsolescence incurred in the first half of 2013.

### Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operations, short-term bank loans and our construction loan facility. Our cash and cash equivalents was \$2.5 million, which represents 1.6% of our total assets as of June 30, 2013, compared to \$4.0 million, which represents 2.5% of our total assets as of December 31, 2012. At June 30, 2013, a total of \$4.2 million is considered to be reinvested indefinitely in Helpson and is not expected to be available for payment of dividends, for other payments to our parent company or to its shareholders. As of June 30, 2013, we had a principal balance of \$4.9 million in short-term bank loans. In addition, we entered an eight-year construction loan facility with a bank on June 21, 2013. The total loan facility amount is RMB 80,000,000 (approximately \$13 million). We utilized RMB 30,000,000 (approximately \$4.86 million) of the facility through August 10, 2013. The cash flow generated from operating activities and the newly executed construction loan facility is being used to fund our construction of new GMP upgrading project.

During the second quarter in 2013, we continued our vigorous collection efforts from our customers and achieved good results. While we have made progress, improving our accounts receivable collection continues to be a focus of our management team and we expect to make further progress in the quarters to come.

At June 30, 2013, the Company was obligated to pay laboratories \$7.1 million upon their completion of the various phases of contracts to provide CFDA production approval of more than 10 medical formulas. Those payments are expected to be made out of the Company's cash flow from operations ratably over approximately the following 48 months, depending on the progress of the various contracts. A typical contract requires an upfront deposit and then two to three additional milestone payments plus a final payment when the CFDA approval is obtained. Since the payments are progress driven, it is difficult to calculate the timing of the payments with any precision; however, management expects that the payments will be somewhat even over the payment period given the number of contracts in progress. The funding obligation is not expected to have an undue negative impact on the liquidity of the Company given the Company's historical cash flows and estimated future cash flows from operating activities.



Based on our current operating plan, management believes that our cash provided by operations, short-term bank loans and our construction loan facility we obtained recently will be sufficient to meet our working capital needs and our anticipated capital expenditures, including expenditures for new formula acquisitions and new GMP upgrading related construction and equipment, for the next twelve months. However, if events or circumstances occur and we do not meet our operating plan as expected, we may be required to seek additional capital and/or to reduce certain discretionary spending, which could have a material adverse effect on our ability to achieve our business objectives. Notwithstanding the foregoing, we may seek additional financing as necessary for expansion purposes and when we believe market conditions are most advantageous, which may include debt and/or equity financing. There can be no assurance that any additional financing will be available on acceptable terms, if at all.

#### Operating Activities

Net cash provided by operating activities was \$3.1 million in the three months period ended June 30, 2013 compared to \$1.9 million for the same period in 2012. As a common business practice in China, Banker's Acceptances (BAs) are often used to settle payment instead of checks. During the six months ended June 30, 2013, the Company collected accounts receivable with BAs with a maturity of more than 90 days, and such BAs are not treated as cash and cash equivalent under U.S. GAAP. If cash equivalent treatment were to be applied to BAs with more than 90 days maturity, \$4.7 million would have been generated in operating activities in the six months ended June 30, 2013. This was mainly because more accounts receivable was collected than generated in the second quarter 2013 than in the same period of 2012.

At June 30, 2013, our accounts receivable was \$55.4 million, a decrease of \$10.8 million from \$66.2 million at December 31, 2012. Our receivables decreased due to decreased sales, the improved performance of our collection of accounts receivable and an increase in our allowance for doubtful accounts. For the six months ended June 30, 2013, \$1.7 million was generated from decreases in Accounts Receivable, compared to \$3.8 million was used to fund increases in Accounts Receivable in the comparable period a year ago.

At June 30, 2013, total inventory was \$33.7 million, a decrease of \$2.7 million from \$36.4 million at December 31, 2012. This decrease was mainly due to the inventory obsolescence recognized pursuant to the CFDA notice on Buflomedil in March 2013.

For the period ending June 30, 2013, the increase in our accounts payable was responsible for a cash saving of \$1.4 million, compared to a cash saving of \$1.8 million in the same period in 2012.

#### Investing Activities

In the six months ended June 30, 2013, net cash used in investing activities was \$4.6 million, an increase of \$3.3 million, compared to \$1.3 million in three months ended June 30, 2012. The investment spending in the second quarter of 2013 was mainly for the intangible asset purchase and new GMP upgrading related construction and equipment.

## Financing Activities

There was no cash flow generated from financing activities in the six months ended June 30, 2013 and there was \$293,004 generated from financing activities in the six months ended June 30, 2012.

According to relevant PRC laws, companies registered in the PRC, including our PRC subsidiary, Helpson, are required to allocate at least ten percent (10%) of their after-tax net income, as determined under accounting standards and regulations in the PRC, to statutory surplus reserve accounts until the reserve account balances reach fifty percent (50%) of the companies' registered capital prior to their remittance of funds out of the PRC. Allocations to these reserves and funds can only be used for specific purposes and are not transferrable to the parent company in the form of loans, advances or cash dividends. As of December 31, 2012 and 2011, the net assets of Helpson were \$142,597,000 and \$135,748,004, respectively. Due to the restriction on dividend distribution to overseas shareholders, the amount of Helpson's net assets that were designated for general and statutory capital reserves, and thus could not be transferred to our parent company as cash dividends, were \$7,935,122 and \$7,863,490 (50% of registered capital) for the fiscal years ended December 31, 2012 and 2011. Since the amount that Helpson must set aside for the statutory surplus fund only accounts for 5.6% and 5.8%, respectively, of its total net assets, this reserve does not have a major impact on our liquidity. There were no allocations to the statutory surplus reserve accounts during the six months ended June 30, 2013.

The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of the PRC. Our businesses and assets are primarily denominated in RMB. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with applicable invoices and signed contracts. These currency exchange control procedures imposed by the PRC government authorities may restrict the ability of Helpson, our PRC subsidiary, to transfer its net assets to our parent company through loans, advances or cash dividends.

## Off Balance Sheet Arrangements

As of June 30, 2013, we did not have any off-balance sheet arrangements.

## Commitments

At June 30, 2013, we were obligated to pay laboratories and others approximately \$7.1 million over approximately the next four years upon completion of the various phases of contracts to provide CFDA production approval of medical formulas.

We entered into purchase and construction agreements during fiscal year 2012 in connection with the construction of a new facility and required manufacturing improvements. Future minimum commitments under the agreements are as follows:

For the Years Ending December 31:	
2013	\$ 9,047,740
2014	988,933
Total	\$ 10,036,673

#### Critical Accounting Policies

Management's discussion and analysis of its financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. Our financial statements reflect the selection and application of accounting policies which require management to make significant estimates and judgments. The discussion of our critical accounting policies contained in Note 1 to our consolidated financial statements, "Organization and Significant Accounting Policies", is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide information required by this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and interim Chief Financial Officer, evaluated the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (the “Exchange Act”) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this quarterly report. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act (a) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (b) is accumulated and communicated to management, including our Chief Executive Officer and interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, our Chief Executive Officer and interim Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

Item 6. Exhibits

The exhibits required by this item are set forth in the Exhibit Index attached hereto.

SIGNATURES

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

CHINA PHARMA HOLDINGS, INC.

Date: August 14, 2013

By: /s/ Zhilin Li  
Name: Zhilin Li  
Title: President and Chief Executive Officer  
(principal executive officer)

Date: August 14, 2013

By: /s/ Zhilin Li  
Name: Zhilin Li  
Title: Interim Chief Financial Officer  
(principal financial officer and principal  
accounting officer)



EXHIBIT INDEX

No.	Description
31.1	– Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	– Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	– Certification of Principal Executive Officer and 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 Document
101.CAL*	– XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	– XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	– XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	– XBRL Taxonomy Extension Presentation Linkbase Document

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\* Furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under these sections.

