



China Pharma Holdings, Inc.

China Pharma Holdings, Inc. Reports Second Quarter 2011 Financial Results

HAIKOU CITY, China, August 11, 2011 - China Pharma Holdings, Inc. (NYSE AMEX: CPHI) ("China Pharma" or the "Company"), a specialty pharmaceuticals company in China, today announced financial results for the quarter ended June 30, 2011.

Second Quarter 2011 Highlights

- Revenue increased 18% to \$19.6 million from \$16.6 million in the Second quarter of 2010.
- Cashflow from operations rose 10% to \$3.6 million from \$3.3 million in first six months of 2010.
- Net income, excluding the impact of change in fair value of derivative liability, fell 9% to \$4.8 million, compared to \$5.3 million in the second quarter of 2010 due to lower gross margins and higher tax rate in 2011.

"In the second quarter of 2011 we achieved solid sales growth primarily due to strong performances by our Anti-Viro Infection & Respiratory and our CNS Cerebral and Cardio Vascular product categories. We continue to face pricing pressures across several of our product categories during the quarter, but we expect gross margin and revenue to benefit from anticipated launches of Candesartan and Rosuvastatin in the months ahead," said Ms. Zhilin Li, China Pharma's Chairman and CEO. "In addition to the expected launch of these two higher margin products, we continue to advance our novel cephalosporin-based combination antibiotic through Phase II clinical trials. Commercializing exciting new drugs like this, along with first-to-market generic medicines, is an important part of our strategy to enhance China Pharma's growth and profitability."

Second Quarter 2011 Results

Revenues for the quarter ended June 30, 2011 were \$19.6 million, up 18% from revenues of \$16.6 million for the quarter ended June 30, 2010. Sales growth in the second quarter was led by the Anti-Viro Infection & Respiratory and also the CNS Cerebral & Cardio Vascular categories.

Sales in the Anti-Viro Infection & Respiratory category rose by 28% to \$8.1 million from \$6.3 million in the year ago period. Our performance in this category was impacted by outstanding sales growth of Cefaclor Dispersible Tablets and also Clarithromycin. Both of these products are front-line antibiotics in hospitals. Our Cefaclor Dispersible Tablets are typical example of our differentiation strategy, which is especially popular in children and patients with swallowing issues.

Sales of CNS Cerebral & Cardio Vascular products also experienced continued growth, with revenues in this category increasing to \$6 million from \$4.9 million, or an increase of 24% on a year over year basis.



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The "Digestive" category experienced more stable growth of 16% mainly from our Tiopronin, a drug prescribed for treatments of acute Hepatitis B and drug-induced liver damage.

Sales of our "Other" category were lower by 11% compared to the same period one year ago. A couple of products from our "Other" category, including Vitamin B6, saw sales declines compared to the same quarter one year ago when these products had a surge in sales partly due to the implementation of the EDL.

Gross profit for the three months ended June 30, 2011 was \$7.28 million, which was approximately 3% higher compared to \$7.04 million in the second quarter of 2010. Our gross margin for the second quarter of 2011 was 37.2%, compared to 42.4% in the corresponding quarter of 2010. We are seeing pricing pressure on many of our products, particularly antibiotics, although the pressure is not uniform across product lines. Pricing pressure has become more evident over the past few quarters as the effect of the Chinese government healthcare reform is being felt across all pharmaceutical products, especially in EDL related products. We expect current challenging pricing environment to persist for some time.

In terms of our gross margins by major categories, CNS Cerebral & Cardio Vascular category margins decreased to 42.9% from the second quarter 2010 gross margin of 47.8%. Gross margin for our Anti-Viro/Infection & Respiratory category decreased to 26.4% from 32.1%. Gross margin for our Digestive Diseases category decreased to 45.7% from 52.3%, and gross margin for our Other category fell to 42.5% from 47.1%.

Selling, general and administrative expenses in the second quarter of 2011 were \$1.8 million, or 9.1% of sales, compared to \$1.5 million, or 9.1% of sales, in the same period of 2010. For the quarter ended June 30, 2011, the Company's bad debt benefit was \$118,704, compared to bad debt expense of \$37,615 in the same period of 2010.

Operating income was \$5.8 million in the second quarter of 2011, down 3% from \$6.0 million in the second quarter of 2010. Operating income was lower mainly due to lower gross margins.

For the quarter ended June 30, 2011, the Company paid income tax at a rate of approximately 15%. Income tax expense for the second quarter of 2011 was \$0.89 million, compared to \$0.63 million for the same period last year. The Company obtained "National High-Tech Enterprise" status from the PRC government in the fourth quarter of 2010. With this designation, the Company is entitled to a preferential tax rate of 15% for the next three years (2011 to 2013), which is notably lower than the statutory income tax rate of 25%.

Net income for the second quarter of 2011 was \$5.1 million, or \$0.12 per basic and diluted share, compared to \$6.1 million, or \$0.14 per basic and diluted share, in the second quarter of 2010. Excluding the effect of change in fair value of derivative warrant liability, management estimates that adjusted non-GAAP net income in the second quarter of 2011 was \$4.8 million, or \$0.11 per diluted share, compared to \$5.3 million, or \$0.12 per diluted share, in the second quarter of 2010.

Six Months Results

Revenues for the six months ended June 30, 2011 were \$37.7 million, up 19% from revenues of \$31.7 million for the six months ended June 30, 2010. Gross profit for the six months ended June 30, 2011 was \$14.2 million, up 7% from gross profit of \$13.2 million for the corresponding period of 2010. Gross margin was 37.5%, compared to 41.5% for the first six months of 2010. Operating income was \$11.1 million, up 2.9% from \$10.8 million for the first six



months of 2010. Net income was \$10.2 million, or \$0.23 per basic and diluted share, compared to \$11.4 million, or \$0.26 per basic and diluted share, for the same period a year ago.

Financial Condition

As of June 30, 2011, the Company had cash and cash equivalents of \$4.7 million compared to \$3.7 million as of December 31, 2010.

Working capital increased to \$88.7 million at June 30, 2011 from \$79 million at December 31, 2010. The current ratio rose to 8.2 times at June 30, 2011 from 7.2 times at December 31, 2010.

Accounts receivable balance rose to \$66 million at the end of the second quarter of 2011 from \$62 million at the end 2010. The Company's management team continues to be sharply focused on improving accounts receivable collection and expects to make further progress in the quarters to come.

For the six months ended June 20, 2011, cash flow from operating activities was \$3.6 million, as compared to \$3.3 million in the second quarter of 2010.

"In the second half of 2011, we expect to add new higher-margin revenue streams with our upcoming new products, which should help offset some of the margin pressure coming from the more competitive pricing due to government reform policies. Overall we are still very optimistic that we have the right mix of products and pipeline opportunities to position China Pharma to benefit from China's healthcare reform program," said Ms. Li. "We believe our success in 2011 and beyond will be defined by our differentiated product portfolio, high-quality manufacturing facilities and promising pipeline, strong distribution network, and commercialization expertise."

Pipeline Update

As of June 30, 2011, China Pharma had nine pipeline drugs in different stages of active development. The development of three of such products is highlighted below:

- The Company completed clinical trials of Candesartan, a front-line drug therapy for the treatment of hypertension. The Company has completed all testing procedures and currently awaits final SFDA production approval.
- The Company completed clinical trials of Rosuvastatin, a generic form of Crestor, in December 2010 and has submitted an application for SFDA production approval.
- The Company completed Phase I clinical trials of its novel cephalosporin-based combination antibiotic in September 2010. Phase I of the clinical trials focused on the study of clinical pharmacology as well as the evaluation of safety on the human body, while observing tolerance and pharmacokinetics to provide support for dosage and drug delivery design. The Company has entered Phase II clinical trials for this drug.

Conference Call

The Company will hold a conference call at 8:30 am ET on August 11, 2011 to discuss second quarter 2011 results. Listeners may access the call by dialing 1-866-831-6272 or 1-617-213-8859 for international callers, access code:



72860215. A webcast will also be available through CPHI's website at <http://www.chinapharmaholdings.com>. A replay of the call will be accessible through August 18, 2011 by dialing 1-888-286-8010 or 1-617-801-6888 for international callers, access code: 99608603.

Use of Non-GAAP Financial Measures

GAAP results for the three months and six months ended June 30, 2011 and June 30, 2010 include the impact of gains from changes in value of derivative warrant liability. To supplement its consolidated financial statements presented on a GAAP basis, the Company has provided non-GAAP adjusted financial information, including adjusted net income and adjusted diluted earnings per share that excludes the impact of the changes in value of derivative warrant liability. The Company's management believes that this adjusted measure provides investors with a better understanding of how the results relate to the Company's historical performance. A reconciliation of adjustment to GAAP results appears in the tables accompanying this press release. This additional adjusted information is not meant to be considered in isolation or as a substitute for GAAP financials. The adjusted financial information that the Company provides also may differ from the adjusted information provided by other companies.

About China Pharma Holdings, Inc.

China Pharma Holdings, Inc. is a rapidly growing specialty pharmaceutical company that develops, manufactures and markets a diversified portfolio of products focused on conditions with a high incidence and high mortality rates in China, including cardiovascular, CNS, infectious, and digestive diseases. The Company's cost-effective, high-margin business model is driven by market demand and supported by eight scalable GMP-certified product lines covering the major dosage forms. In addition, the Company has a broad and expanding nationwide distribution network across all major cities and provinces in China. The Company's wholly-owned subsidiary, Hainan Helpson Medical & Biotechnology Co., Ltd., is located in Haikou City, Hainan Province. For more information about China Pharma Holdings, Inc., please visit <http://www.chinapharmaholdings.com>.

Safe Harbor Statement

Certain statements in this press release constitute forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Any statements set forth above that are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements, which may include, but are not limited to, such factors as the achievability of financial guidance, success of new product development, unanticipated changes in product demand, increased competition, downturns in the Chinese economy, uncompetitive levels of research and development, and other information detailed from time to time in the Company's filings and future filings with the United States Securities and Exchange Commission. The forward-looking statements made herein speak only as of the date of this press release and the Company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations except as required by applicable law or regulation.



China Pharma Holdings, Inc.

- FINANCIAL TABLES FOLLOW -

China Pharma Holdings, Inc.
Reconciliation of Non-GAAP Adjusted Net Income and Diluted EPS
(Unaudited, \$ in thousand except share and per share data)

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2011		2010		2011		2010	
	Net income	EPS	Net income	EPS	Net income	EPS	Net income	EPS
Adjusted net income, excluding approximate after-tax impact of derivative gain	\$ 4,812	\$ 0.11	\$ 5,276	\$ 0.12	\$ 9,239	\$ 0.21	\$ 9,570	\$ 0.22
Subtract: Derivate Gain	257	0.01	807	0.02	934	0.02	1,366	0.03
Net income as reported (GAAP)	\$ 5,069	\$ 0.12	\$ 6,083	\$ 0.14	\$ 10,173	\$ 0.23	\$ 10,936	\$ 0.25
Diluted weighted average shares outstanding	43,454,008		43,497,639		43,429,419		43,550,300	

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

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,687,657	\$ 3,692,086
Banker's acceptances	237,415	-
Trade accounts receivable, less allowance for doubtful accounts of \$3,276,642 and \$3,317,017, respectively	66,144,994	61,947,737
Other receivables, less allowance for doubtful accounts of \$22,337 and \$15,669, respectively	82,240	65,019
Advances to suppliers	5,322,135	5,311,896
Inventory	23,977,442	20,388,935
Deferred tax assets	524,290	528,684
Total Current Assets	<u>100,976,173</u>	<u>91,934,357</u>
Advances for purchases of property and equipment and intangible assets	5,409,096	4,395,331
Property and equipment, net of accumulated depreciation of \$3,181,610 and \$2,695,840, respectively	6,265,741	6,372,487
Intangible assets, net of accumulated amortization of \$2,872,652 and \$2,342,081, respectively	<u>30,788,187</u>	<u>29,048,766</u>
TOTAL ASSETS	<u>\$ 143,439,197</u>	<u>\$ 131,750,941</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 2,767,403	\$ 4,937,781
Accrued expenses	82,130	98,206
Accrued taxes payable	3,355,674	2,386,019
Other payables	368,412	92,077
Advances from customers	1,392,699	1,208,988
Other payables - related parties	491,563	303,644
Short-term notes payable	3,868,173	3,781,119
Total Current Liabilities	<u>12,326,054</u>	<u>12,807,834</u>
Long-term deferred tax liability	73,323	71,673
Derivative warrant liability	-	934,260
Total Liabilities	<u>12,399,377</u>	<u>13,813,767</u>
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; 43,529,557 shares and 43,404,557 shares outstanding, respectively	43,530	43,405
Additional paid-in capital	23,334,316	23,252,476
Retained earnings	95,189,716	85,017,024
Accumulated other comprehensive income	12,472,258	9,624,269
Total Stockholders' Equity	<u>131,039,820</u>	<u>117,937,174</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 143,439,197</u>	<u>\$ 131,750,941</u>
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CHINA PHARMA HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 19,600,852	\$ 16,631,354	\$ 37,720,409	\$ 31,733,864
Cost of revenue	12,318,868	9,587,417	23,568,814	18,555,719
Gross profit	7,281,984	7,043,937	14,151,595	13,178,145
Operating expenses:				
Selling expenses	799,220	621,580	1,403,701	1,204,468
General and administrative expenses	986,949	894,507	1,903,894	1,547,255
Bad debt expense (benefit)	(118,704)	37,615	(109,276)	108,521
Total operating expenses	1,667,465	1,553,702	3,198,319	2,860,244
Government subsidy income	145,447	465,663	145,447	465,663
Income from operations	5,759,966	5,955,898	11,098,723	10,783,564
Other income (expense):				
Interest income	2,454	5,401	4,415	12,158
Interest expense	(61,222)	(51,631)	(122,436)	(102,121)
Derivative gain	256,762	807,005	934,260	1,365,509
Net other income	197,994	760,775	816,239	1,275,546
Income before income taxes	5,957,960	6,716,673	11,914,962	12,059,110
Income tax expense	(888,890)	(633,419)	(1,742,270)	(1,122,698)
Net income	5,069,070	6,083,254	10,172,692	10,936,412
Other comprehensive income - foreign currency translation adjustment	1,709,951	403,253	2,847,989	417,698
Comprehensive income	\$ 6,779,021	\$ 6,486,507	\$ 13,020,681	\$ 11,354,110
Earnings per Share:				
Basic	\$ 0.12	\$ 0.14	\$ 0.23	\$ 0.25
Diluted	\$ 0.12	\$ 0.14	\$ 0.23	\$ 0.25

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

	For the Six Months Ended June 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 10,172,692	\$ 10,936,412
Depreciation and amortization	890,895	841,762
Stock based compensation	81,965	221,101
Derivative gain	(934,260)	(1,365,509)
Changes in assets and liabilities:		
Trade accounts receivable	(2,741,907)	(3,402,232)
Other receivables	(15,559)	(25,809)
Advances to suppliers	110,882	(907,559)
Inventory	(3,086,326)	(4,994,669)
Deferred tax assets	16,391	(145,552)
Trade accounts payable	(2,204,755)	2,404,264
Accrued expenses	266,666	(31,448)
Accrued taxes payable	905,113	(233,065)
Other payables	(8,947)	1,014
Advances from customers	154,239	(17,231)
Net Cash Provided by Operating Activities	3,607,089	3,281,479
Cash Flows from Investing Activities:		
Net investment in banker's acceptances	(234,921)	-
Advances for purchases of property and equipment and intangible assets	(902,986)	(2,018,906)
Purchase of property and equipment	(223,769)	(108,842)
Purchase of intangible assets	(1,531,018)	(2,852,168)
Net Cash Used in Investing Activities	(2,892,694)	(4,979,916)
Cash Flows from Financing Activities:		
Proceeds from related party loan	187,919	-
Proceeds from exercise of warrants	-	2,583,000
Net Cash Provided by Financing Activities	187,919	2,583,000
Effect of Exchange Rate Changes on Cash	93,257	8,799
Net Increase in Cash and Cash Equivalents	995,571	893,362
Cash and Cash Equivalents at Beginning of Period	3,692,086	3,634,753
Cash and Cash Equivalents at End of Period	\$ 4,687,657	\$ 4,528,115
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 118,347	\$ 102,121
Cash paid for income taxes	617,544	2,906,168