



China Pharma Holdings, Inc.

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

HAIKOU CITY, China, May 11, 2011 - China Pharma Holdings, Inc. (NYSE AMEX: CPHI) ("China Pharma" or the "Company"), a fully-integrated specialty pharmaceuticals company in China, today announced financial results for the quarter ended March 31, 2011.

First Quarter 2011 Highlights

- Revenue increased 20% to \$18.1 million from \$15.1 million in the first quarter of 2010.
- Cashflow from operations rose 23% to \$1.4 million from \$1.1 million in first quarter of 2010.
- Gross profit grew 12% to \$6.9 million from \$6.1 million in the first quarter of 2010.
- Net income, excluding the impact of change in fair value of derivative liability, increased 3% to \$4.4 million, compared \$4.3 million in the first quarter of 2010.

"In the first quarter of 2011 we achieved solid sales growth primarily due to strong performances by our Digestive Diseases and Anti-Viro product categories. We continue to face moderate pricing pressure 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 seasonally strong second half of the year," said Ms. Zhilin Li, China Pharma's Chairman and CEO. "In addition to the expected launch of these two higher margin products later in 2011, 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."

First Quarter 2011 Results

Revenues for the quarter ended March 31, 2011 were \$18.1 million, up 20% from revenues of \$15.1 million for the quarter ended March 31, 2010, reflecting higher sales across all of the Company's product categories led by growth in the Digestive Diseases and Anti-Viro Infection & Respiratory ("Anti-Viro") categories.

The Digestive Diseases product group was the Company's fastest growing revenue category in the first quarter of 2011, with sales increasing 53% to \$2.6 million from \$1.7 million in the first quarter of 2010. The strong performance of the Digestive Diseases product group primarily reflects continued robust sales of Omeprazole, the Company's generic gastroesophageal reflux disease drug, and Tiopronin, a drug prescribed for treatment of acute Hepatitis B and drug-induced liver damage.

Revenue from the Anti-Viro product category grew 31% to \$7.1 million in the quarter ending March 31, 2011, from \$5.4 million in the first quarter of 2010. We saw year-over-year sales growth in nearly all products within the Anti-Viro category.

Revenue from the Other product category increased 15% to \$3.1 million in the first quarter of 2011 from \$2.7 million in the same period last year, driven by strong sales of Vitamin B6.

The CNS Cerebral & Cardio Vascular ("CNS") product group generated revenue of \$5.4 million in the first quarter of 2011, roughly flat compared to revenue of \$5.3 million in the first quarter of 2010. The Company expects significantly improved future sales growth and profitability in this category upon launch of Candesartan and Rosuvastatin, both of which are CNS products.

Gross profit for the quarter ended March 31, 2011 was \$6.9 million, up 12% from gross profit of \$6.1 million in the same period of 2010. Gross margin decreased to 37.9% in the first quarter of 2011 from 40.6% in the first quarter



China Pharma Holdings, Inc.

of 2010, reflecting pricing pressure across product lines, with the exception of the Digestive Diseases category. The Company estimates that the new tax and surcharges that became applicable recently accounted for approximately 0.8% of the decline in overall margin.

Gross margin for the Digestive Diseases product group increased to 48.4% in the first quarter of 2011 from 47.5% in the same period last year. Anti-Viro gross margin declined slightly to 27.5% in the first quarter of 2011 from 28.6% in the same period last year. Gross margin for the Other product category fell more sharply to 44.9% in the first quarter of 2011 from 49.7% in the same period last year, primarily reflecting strong sales of Vitamin B6, which is on the Essential Drug List and generates lower margin than the category average. CNS product gross margin decreased slightly to 45.3% in the first quarter of 2011 from 45.8% in the same period last year.

Selling, general and administrative expenses in the first quarter of 2011 were \$1.5 million, or 8.4% of sales, compared to \$1.2 million, or 8.2% of sales, in the same period of 2010. For the quarter ended March 31, 2011, the Company's bad debt expense was \$9,428, compared to bad debt expense of \$70,906 in the same period of 2010.

Operating income was \$5.3 million in the first quarter of 2011, up 11% from \$4.8 million in the first quarter of 2010.

For the quarter ended March 31, 2011, the Company paid income tax at a rate of approximately 14%. Income tax expense for the first quarter of 2011 was \$0.9 million, compared to \$0.5 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 first quarter of 2011 was \$5.1 million, or \$0.12 per basic and diluted share, compared to \$4.9 million, or \$0.11 per basic and diluted share, in the first quarter of 2010. Excluding the effect of change in fair value of derivative warrant liability, adjusted non-GAAP net income in the first quarter of 2011 was \$4.4 million, or \$0.10 per diluted share, compared to \$4.3 million, or \$0.10 per diluted share, in the first quarter of 2010.

Financial Condition

As of March 31, 2011, the Company had cash and cash equivalents of \$3.8 million compared to \$3.7 million as of December 31, 2010.

Working capital increased to \$84 million at March 31, 2011 from \$79 million at December 31, 2010. The current ratio rose to 7.6 times at March 31, 2011 from 7.2 times at December 31, 2010.

Accounts receivable balance rose to \$64 million at the end of the first 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 quarter ended March 31, 2011, cash flow from operating activities was \$1.4 million, as compared to \$1.1 million in the first quarter of 2010.

"In 2011, we anticipate adding new higher-margin revenue streams to our upcoming new products, which should help offset pockets of margin pressure coming from higher raw material costs and more competitive pricing due to government reform policies. Overall we are very optimistic that we have the right mix of products and pipeline opportunities to position China Pharma to benefit from China's unprecedented \$124 billion healthcare reform program," said Ms. Li. "We believe our success in 2011 and beyond will be defined by our high-quality manufacturing facilities and promising pipeline, strong distribution relationships, and commercialization expertise."



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Pipeline Update

As of March 31, 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 a.m. ET on May 11, 2011 to discuss first quarter fiscal year 2011 results. Listeners may access the call by dialing 1-866-783-2145, or 1-857-350-1604 for international callers; access code: 43412948. A webcast will also be available through the Company's website at <http://www.chinapharmaholdings.com>. A replay of the call will be accessible from 12:30 p.m. ET on May 11, 2011 through May 18, 2011 by dialing 1-888-286-8010, or 1-617-801-6888 for international callers; access code: 49458851.

Use of Non-GAAP Financial Measures

GAAP results for the quarter ended March 31, 2011 and March 31, 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



China Pharma Holdings, Inc.

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.

- 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 March 31,

	2011		2010	
	Net income	EPS	Net income	EPS
Adjusted net income, excluding approximate after-tax impact of derivative gain	\$ 4,427	\$ 0.10	\$ 4,294	\$ 0.10
Subtract: Derivate Gain (a)	677	0.02	559	0.01
Adjusted net income, excluding approximate after-tax impact of derivative gain (loss) (Non- GAAP)	5,104	0.12	4,853	0.11
Approximate after-tax impact of one-time bad debt estimate change (b)	-	-	-	-
Net income as reported (GAAP)	\$ 5,104	\$ 0.12	\$ 4,853	\$ 0.11
Diluted weighted average shares outstanding	43,415,163		43,602,261	

(a) Represents the approximate amount by which net income or EPS would have decreased without the derivative gain.

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

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,803,645	\$ 3,692,086
Banker's acceptances	469,417	-
Trade accounts receivable, less allowance for doubtful accounts of \$3,355,787 and \$3,317,017, respectively	63,991,506	61,947,737
Other receivables, less allowance for doubtful accounts of \$17,751 and \$15,669, respectively	138,823	65,019
Advances to suppliers	4,564,790	5,311,896
Inventory	23,114,515	20,388,935
Deferred tax assets	<u>535,082</u>	<u>528,684</u>
Total Current Assets	96,617,778	91,934,357
Advances for purchases of property and equipment and intangible assets	4,677,179	4,395,331
Property and equipment , net of accumulated depreciation of \$2,929,502 and \$2,695,840, respectively	6,230,232	6,372,487
Intangible assets , net of accumulated amortization of \$2,599,297 and \$2,342,081, respectively	<u>29,697,920</u>	<u>29,048,766</u>
TOTAL ASSETS	<u>\$ 137,223,109</u>	<u>\$ 131,750,941</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 3,663,626	\$ 4,937,781
Accrued expenses	58,178	98,206
Accrued taxes payable	2,593,645	2,386,019
Other payables	372,651	92,077
Advances from customers	1,796,868	1,208,988
Other payables - related parties	371,563	303,644
Short-term notes payable	<u>3,816,736</u>	<u>3,781,119</u>
Total Current Liabilities	12,673,267	12,807,834
Long-term deferred tax liability	72,348	71,673
Derivative warrant liability	<u>256,762</u>	<u>934,260</u>
Total Liabilities	<u>13,002,377</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; 43,404,557 shares and 43,404,557 shares outstanding, respectively	43,405	43,405
Additional paid-in capital	23,294,374	23,252,476
Retained earnings	90,120,646	85,017,024
Accumulated other comprehensive income	<u>10,762,307</u>	<u>9,624,269</u>
Total Stockholders' Equity	<u>124,220,732</u>	<u>117,937,174</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 137,223,109</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 March 31,	
	2011	2010
Revenue	\$ 18,119,557	\$ 15,102,510
Cost of revenue	11,249,946	8,968,302
Gross profit	6,869,611	6,134,208
Operating expenses:		
Selling expenses	604,481	582,888
General and administrative expenses	916,945	652,748
Bad debt expense	9,428	70,906
Total operating expenses	1,530,854	1,306,542
Income from operations	5,338,757	4,827,666
Other income (expense):		
Interest income	1,961	6,757
Interest expense	(61,214)	(50,490)
Derivative gain	677,498	558,504
Net other income	618,245	514,771
Income before income taxes	5,957,002	5,342,437
Income tax expense	(853,380)	(489,279)
Net income	5,103,622	4,853,158
Other comprehensive income - foreign currency translation adjustment	1,138,038	14,445
Comprehensive income	\$ 6,241,660	\$ 4,867,603
Earnings per Share:		
Basic	\$ 0.12	\$ 0.11
Diluted	\$ 0.12	\$ 0.11

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

	For the Three Months Ended March 31,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$5,103,622	\$4,853,158
Depreciation and amortization	441,993	419,903
Stock based compensation	41,898	47,624
Derivative gain	(677,498)	(558,504)
Changes in assets and liabilities:		
Trade accounts receivable	(1,455,529)	(1,224,072)
Other receivables	(72,955)	(6,209)
Advances to suppliers	794,570	(1,037,525)
Inventory	(2,525,349)	(1,604,046)
Deferred tax assets	(1,414)	(72,339)
Trade accounts payable	(1,261,422)	318,952
Accrued expenses	194,444	(36,265)
Accrued taxes payable	184,552	155,402
Other payables	44,932	2,043
Advances from customers	574,632	(134,791)
Net Cash Provided by Operating Activities	1,386,476	1,123,331
Cash Flows from Investing Activities:		
Net investment in banker's acceptances	(467,902)	-
Advances for purchases of property and equipment and intangible assets	(239,670)	(1,291,216)
Purchase of property and equipment	(60,949)	(58,272)
Purchase of intangible assets	(608,708)	(1,207,541)
Net Cash Used in Investing Activities	(1,377,229)	(2,557,029)
Cash Flows from Financing Activity:		
Proceeds from related party loan	67,919	-
Proceeds from exercise of warrants	-	2,583,000
Net Cash Provided by Financing Activity	67,919	2,583,000
Effect of Exchange Rate Changes on Cash	34,393	527
Net Increase in Cash and Cash Equivalents	111,559	1,149,829
Cash and Cash Equivalents at Beginning of Period	3,692,086	3,634,753
Cash and Cash Equivalents at End of Period	\$3,803,645	\$4,784,582
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 58,170	\$ 50,490
Cash paid for income taxes	385,546	376,727