

**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, 2023**

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<br>_____<br>(State or other jurisdiction of<br>incorporation or organization)                                     | 75-1564807<br>_____<br>(IRS Employer<br>Identification No.) |
| Second Floor, No. 17, Jinpan Road<br>Haikou, Hainan Province, China<br>_____<br>(Address of principal executive offices) | 570216<br>_____<br>(Zip Code)                               |

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

Securities registered pursuant to Section 12(b) of the Act:

| <b>Title of each class</b> | <b>Trading Symbol(s)</b> | <b>Name of each exchange on which<br/>registered</b> |
|----------------------------|--------------------------|--|
| Common Stock               | CPHI                     | NYSE American  |

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 every Interactive Data File required to be submitted 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 7, 2023, there were 11,432,801 shares of common stock, \$0.001 par value per share, issued and outstanding.

## CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

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## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

#### CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

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

|  | <u>June 30,<br/>2023</u> | <u>December 31,<br/>2022</u> |
|--|--------------------------|------------------------------|
| <b>ASSETS</b>  |                          |                              |
| <b>Current Assets:</b>   |                          |                              |
| Cash and cash equivalents  | \$ 901,910               | \$ 2,029,971                 |
| Banker's acceptances   | 80,406                   | 13,784                       |
| Trade accounts receivable, less allowance for doubtful accounts of \$16,125,255 and \$16,739,527, respectively |                          |                              |
| Other receivables, less allowance for doubtful accounts of \$29,592 and \$27,149, respectively                 | 275,244                  | 421,531                      |
|  | 91,753                   | 29,139                       |
| Advances to suppliers  | 146,036                  | 444,637                      |
| Inventory  | 3,913,564                | 2,947,787                    |
| Prepaid expenses   | 117,979                  | 77,697                       |
| <b>Total Current Assets</b>  | <u>5,526,892</u>         | <u>5,964,546</u>             |
| Property, plant and equipment, net   | 8,340,840                | 9,973,065                    |
| Operating lease right of use asset   | 152,401                  | 39,046                       |
| Intangible assets, net   | 1,684,176                | 1,807,486                    |
| <b>TOTAL ASSETS</b>  | <u>\$ 15,704,309</u>     | <u>\$ 17,784,143</u>         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                          |                              |
| <b>Current Liabilities:</b>  |                          |                              |
| Trade accounts payable   | \$ 414,084               | \$ 667,082                   |
| Accrued expenses   | 120,563                  | 404,807                      |
| Other payables   | 2,238,303                | 2,390,063                    |

|  |                             |                             |
|--|-----------------------------|-----------------------------|
| Advances from customers  | 61,334                      | 520,295                     |
| Borrowings from related parties  | 2,450,523                   | 2,475,840                   |
| Operating lease liability  | 74,850                      | 40,445                      |
| Current portion of lines of credit   | 2,837,056                   | 2,440,915                   |
| Convertible, redeemable note payable, net of issue discount  | <u>2,350,000</u>            | <u>3,800,000</u>            |
| <b>Total Current Liabilities</b>   | <b>10,546,713</b>           | <b>12,739,447</b>           |
| <b>Non-current Liabilities:</b>  |                             |                             |
| Operating lease liability, net of current portion  | 77,551                      | -                           |
| Deferred tax liability   | <u>727,417</u>              | <u>754,698</u>              |
| <b>Total Liabilities</b>   | <b><u>11,351,681</u></b>    | <b><u>13,494,145</u></b>    |
| <b>Commitments and Contingencies (Note 13)</b>   |                             |                             |
| <b>Stockholders' Equity:</b>   |                             |                             |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding   |                             |                             |
| Common stock, \$0.001 par value; 500,000,000 shares authorized; 8,449,925 shares and 7,490,896 shares issued and outstanding, respectively | 87,474                      | 74,909                      |
| Additional paid-in capital   | 30,290,955                  | 28,853,520                  |
| Retained deficit   | (37,280,501)                | (36,211,496)                |
| Accumulated other comprehensive income   | <u>11,254,700</u>           | <u>11,573,065</u>           |
| <b>Total Stockholders' Equity</b>  | <b><u>4,352,628</u></b>     | <b><u>4,289,998</u></b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b><u>\$ 15,704,309</u></b> | <b><u>\$ 17,784,143</u></b> |

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

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

|                                     | <b>For the Three Months</b> |                  | <b>For the Six Months</b> |                    |
|-------------------------------------|-----------------------------|------------------|---------------------------|--------------------|
|                                     | <b>Ended June 30,</b>       |                  | <b>Ended June 30,</b>     |                    |
|                                     | <b>2023</b>                 | <b>2022</b>      | <b>2023</b>               | <b>2022</b>        |
| Revenue                             | \$ 1,097,862                | \$ 1,613,156     | \$ 3,058,152              | \$ 3,217,161       |
| Cost of revenue                     | <u>1,244,523</u>            | <u>1,842,537</u> | <u>3,026,889</u>          | <u>3,616,003</u>   |
| Gross profit (loss)                 | <u>(146,661)</u>            | <u>(229,381)</u> | <u>31,263</u>             | <u>(398,842)</u>   |
| Operating expenses:                 |                             |                  |                           |                    |
| Selling expenses                    | 169,820                     | 266,451          | 314,252                   | 446,012            |
| General and administrative expenses | 112,033                     | 273,056          | 530,032                   | 787,224            |
| Research and development expenses   | 23,747                      | 15,063           | 46,755                    | 69,112             |
| Bad debt expense (benefit)          | 4,047                       | (4,358)          | (5,989)                   | (9,879)            |
| Total operating expenses            | <u>309,647</u>              | <u>550,212</u>   | <u>885,050</u>            | <u>1,292,469</u>   |
| Loss from operations                | <u>(456,308)</u>            | <u>(779,593)</u> | <u>(853,787)</u>          | <u>(1,691,311)</u> |
| Other income (expense):             |                             |                  |                           |                    |
| Interest income                     | 942                         | 1,240            | 1,890                     | 7,895              |
| Interest expense                    | <u>(137,663)</u>            | <u>(110,041)</u> | <u>(217,108)</u>          | <u>(234,468)</u>   |

|   |                             |                             |                             |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Net other expense   | <u>(136,721)</u>            | <u>(108,801)</u>            | <u>(215,218)</u>            | <u>(226,573)</u>            |
| Loss before income taxes  | (593,029)                   | (888,394)                   | (1,069,005)                 | (1,917,884)                 |
| Income tax expense  | <u>-</u>                    | <u>-</u>                    | <u>-</u>                    | <u>-</u>                    |
| <b>Net loss</b>   | <u>(593,029)</u>            | <u>(888,394)</u>            | <u>(1,069,005)</u>          | <u>(1,917,884)</u>          |
| Other comprehensive (loss) income - foreign currency translation adjustment | <u>(523,687)</u>            | <u>(626,958)</u>            | <u>(318,365)</u>            | <u>(575,309)</u>            |
| <b>Comprehensive loss</b>   | <u><u>\$(1,116,716)</u></u> | <u><u>\$(1,515,352)</u></u> | <u><u>\$(1,387,370)</u></u> | <u><u>\$(2,493,193)</u></u> |
| <b>Loss per share:</b>  |                             |                             |                             |                             |
| Basic and diluted   | <u>\$ (0.06)</u>            | <u>\$ (0.18)</u>            | <u>\$ (0.12)</u>            | <u>\$ (0.40)</u>            |
| Weighted average shares outstanding   | <u><u>9,916,180</u></u>     | <u><u>4,848,867</u></u>     | <u><u>9,002,559</u></u>     | <u><u>4,793,149</u></u>     |

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

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**CHINA PHARMA HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited)

|   | <u>Common Stock</u> |                  | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Retained<br/>Deficit</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|---|---------------------|------------------|---|-----------------------------|---|---|
|   | <u>Shares</u>       | <u>Amount</u>    |   |                             |   |   |
| <b>Balance, January 1, 2022</b>             | 4,733,956           | \$ 47,340        | \$25,645,367                              | \$(32,238,655)              | \$ 12,563,829   | \$ 6,017,881                              |
| Conversions of Note Payable to common stock | 96,041              | 960              | 299,040                                   | -                           | -   | 300,000                                   |
| Net loss for the period                     | -                   | -                | -   | (1,029,490)                 | -   | (1,029,490)                               |
| Foreign currency translation adjustment     | -                   | -                | -   | -                           | 51,649  | 51,649                                    |
| <b>Balance, March 31, 2022</b>              | 4,829,997           | 48,300           | 25,944,407                                | (33,268,145)                | 12,615,478  | 5,340,040                                 |
| Conversions of Note Payable to common stock | 101,010             | 1,010            | 198,990                                   | -                           | -   | 200,000                                   |
| Net loss for the period                     | -                   | -                | -   | (888,394)                   | -   | (888,394)                                 |
| Foreign currency translation adjustment     | -                   | -                | -   | -                           | (626,958)   | (626,958)                                 |
| <b>Balance, June 30, 2022</b>               | <u>4,931,007</u>    | <u>\$ 49,310</u> | <u>\$26,143,397</u>                       | <u>\$(34,156,539)</u>       | <u>\$ 11,988,520</u>                                      | <u>\$ 4,024,688</u>                       |

|   | <u>Common Stock</u> |               | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Retained<br/>Deficit</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income</u> | <u>Total<br/>Stockholder'<br/>Equity</u> |
|---|---------------------|---------------|---|-----------------------------|---|--|
|   | <u>Shares</u>       | <u>Amount</u> |   |                             |   |  |
| <b>Balance, January 1, 2023</b>             | 7,490,896           | \$ 74,909     | \$28,853,520                              | \$(36,211,496)              | \$ 11,573,065   | \$ 4,289,998                             |
| Conversions of Note Payable to common stock | 959,029             | 9,591         | 640,409                                   | -                           | -   | 650,000                                  |
| Net loss for the period                     | -                   | -             | -   | (475,976)                   | -   | (475,976)                                |
| Foreign currency translation adjustment     | -                   | -             | -   | -                           | 205,322   | 205,322                                  |
| <b>Balance, March 31, 2023</b>              | 8,449,925           | 84,500        | 29,493,929                                | (36,687,472)                | 11,778,387  | 4,669,344                                |
| Conversions of Note Payable to common stock | 2,974,707           | 2,974         | 797,026                                   | -                           | -   | 800,000                                  |

|   |                   |                  |                     |                       |                      |                     |
|---|-------------------|------------------|---------------------|-----------------------|----------------------|---------------------|
| Net loss for the period                 | -                 | -                | -                   | (593,029)             | -                    | (593,029)           |
| Foreign currency translation adjustment | -                 | -                | -                   | -                     | (523,687)            | (523,687)           |
| <b>Balance, June 30, 2023</b>           | <u>11,424,632</u> | <u>\$ 87,474</u> | <u>\$30,290,955</u> | <u>\$(37,280,501)</u> | <u>\$ 11,254,700</u> | <u>\$ 4,352,628</u> |

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

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

|  | <b>For the Six Months<br/>Ended June 30,</b> |                     |
|--|--|---------------------|
|  | <u>2023</u>                                  | <u>2022</u>         |
| <b>Cash Flows from Operating Activities:</b>                       |  |                     |
| Net loss   | \$(1,069,005)                                | \$(1,917,884)       |
| Depreciation and amortization                                      | 1,374,724                                    | 1,396,771           |
| Bad debt (benefit) expense   | (5,989)                                      | (9,879)             |
| Inventory write off  | 24,259                                       | -                   |
| Changes in assets and liabilities:                                 |  |                     |
| Trade accounts and other receivables                               | (344,449)                                    | 148,105             |
| Advances to suppliers  | 294,625                                      | (8,514)             |
| Inventory  | (791,042)                                    | (85,985)            |
| Trade accounts payable   | (238,684)                                    | (499,822)           |
| Other payables and accrued expenses                                | (425,153)                                    | (137,335)           |
| Advances from customers  | (458,999)                                    | (63,438)            |
| Prepaid expenses   | (44,936)                                     | (35,281)            |
| <b>Net Cash Used in Operating Activities</b>                       | <u>(1,684,649)</u>                           | <u>(1,213,262)</u>  |
| <b>Cash Flows from Investing Activities:</b>                       |  |                     |
| Purchases of property and equipment                                | 60,465                                       | (176,682)           |
| <b>Net Cash Used in Investing Activities</b>                       | <u>60,465</u>                                | <u>(176,682)</u>    |
| <b>Cash Flows from Financing Activities:</b>                       |  |                     |
| Payments of line of credit   | -  | (910,000)           |
| Proceeds from lines of credit                                      | 505,114                                      |                     |
| Borrowings and interest from related party                         | 14,057                                       | 15,023              |
| Repayments to related party  | -  | (231,356)           |
| <b>Net Cash (Used In) Provided By Financing Activities</b>         | <u>519,171</u>                               | <u>(1,126,333)</u>  |
| <b>Effect of Exchange Rate Changes on Cash</b>                     | (23,048)                                     | (97,821)            |
| <b>Net Increase in Cash, Cash Equivalents and Restricted Cash</b>  | (1,128,061)                                  | (2,614,098)         |
| Cash and Cash Equivalents at Beginning of Period                   | 2,029,971                                    | 4,859,060           |
| <b>Cash, Cash Equivalents and Restricted Cash at End of Period</b> | <u>\$ 901,910</u>                            | <u>\$ 2,244,962</u> |
| <b>Supplemental Cash Flow Information:</b>                         |  |                     |
| Cash paid for income taxes   | \$ -   | \$ -                |
| Cash paid for interest   | <u>\$ 39,681</u>                             | <u>\$ 81,401</u>    |

**Supplemental Noncash Investing and Financing Activities:**

|   |            |            |
|---|------------|------------|
| Accounts receivable collected with banker's acceptances | \$ 421,458 | \$ 205,711 |
| Inventory purchased with banker's acceptances           | 351,463    | 284,418    |
| Conversions of Note Payable to common stock             | 800,000    | 500,000    |
| Right of use assets                                     | 158,926    | -          |

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

**CHINA PHARMA HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)**

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

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

Onny acquired 100% of the ownership in Helpson on May 25, 2005, by entering into an Equity Transfer Agreement with Helpson’s three former shareholders. The transaction was approved by the Commercial Bureau of Hainan Province on June 12, 2005 and Helpson received the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the PRC on the same day. Helpson received its business license evidencing its Wholly Foreign Owned Enterprise (“WFOE”) status on June 21, 2005.

Helpson is principally engaged in the development, manufacture and marketing of pharmaceutical products for human use in connection with a variety of high-incidence and high-mortality diseases and medical conditions prevalent in the PRC. All of its operations are conducted in the PRC, where its manufacturing facilities are located. Helpson manufactures pharmaceutical products in the form of dry powder injectables, liquid injectables, tablets, capsules, and cephalosporin oral solutions. The majority of its pharmaceutical products are sold on a prescription basis and all have been approved for at least one or more therapeutic indications by the National Medical Products Administration (the “NMPA”, formerly China Food and Drug Administration, or CFDA) based upon demonstrated safety and efficacy.

**Liquidity and Going Concern**

As of June 30, 2023, the Company had cash and cash equivalents of \$0.9 million and an accumulated deficit of \$37.3 million. The Company’s Chairperson, Chief Executive Officer and Interim Chief Financial Officer has advanced an aggregate of \$1,095,956 as of June 30, 2023 to provide working capital and enable the Company to make the required payments related to its former construction loan facility. The Company anticipates operating losses to continue for the foreseeable future due to, among other things, costs related to the production of its existing products, debt service costs and costs of selling and administrative costs. These conditions raise substantial doubt about its ability to continue as a going concern within one year after the date that the financial statements are issued. To alleviate the conditions that raise substantial doubt about the Company’s ability to continue as a going concern, management plans to enhance the sales model of advance payment, and further strengthen its collection of accounts receivable. Further, the Company is currently exploring strategic alternatives to accelerate the launch of nutrition products. In addition, management believes that the Company’s existing fixed assets can serve as collateral to support additional bank loans. While the current plans will allow the Company to fund its operations in the next twelve months, there can be no assurance that the Company will be able to achieve its future strategic alternatives raising substantial doubt about its ability to continue as a going concern.

Pursuant to the requirements of Accounting Standards Codification (ASC) 205-40, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* management must evaluate whether there are conditions or events,

considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company's ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued.

Under ASC 205-40, the strategic alternatives being pursued by the Company cannot be considered probable at this time because none of the Company's current plans have been finalized at the time of the issuance of these financial statements and the implementation of any such plan is not probable of being effectively implemented as none of the plans are entirely within the Company's control. Accordingly, substantial doubt is deemed to exist about the Company's ability to continue as a going concern within one year after the date these financial statements are issued.

**CHINA PHARMA HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)**

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of the uncertainties described above.

***Reverse Stock Split*** – Effective March 6, 2023, China Pharma implemented a 1-for-10 reverse stock split as more fully discussed in Note 14. All share and per share disclosures have been retroactively restated to reflect the impact of the reverse stock split.

***Consolidation and Basis of Presentation*** – The accompanying unaudited interim condensed consolidated 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 unaudited interim condensed 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 the 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 party to the transaction are included in the results of operations.

In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. All significant intercompany transactions and balances are eliminated on consolidation. However, the results of operations included in such financial statements may not necessary be indicative of annual results. Such financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission (the “SEC”) on March 30, 2023 (“2022 Annual Report”).



**Accounting Estimates** - The methodology used to prepare the Company’s financial statements is in conformity with U.S. GAAP, which requires the management of the Company 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. Therefore, actual results could differ from those estimates.

The Company uses the same accounting policies in preparing its quarterly and annual financial statements. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

**Loss Per Share** - Basic loss per share is calculated by dividing loss available to common stockholders by the weighted-average number of shares of common stock outstanding, excluding unvested stock. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if the potential common shares, including unvested stock, had been issued and if the additional common shares were dilutive.

The potentially dilutive common shares related to the convertible, redeemable note payable of 8,180,708 and 3,836,070 at June 30, 2023 and December 31, 2022 as discussed in Note 8, respectively, and the option to purchase 66,500 shares of common stock at June 30, 2023 and December 31, 2022 are excluded from the computation of diluted net loss per share for all periods presented because the effect is anti-dilutive due to net losses of the Company.

**Recent Accounting Pronouncements**

From time to time, the FASB or other standards setting bodies issue new accounting pronouncements. Updates to the FASB ASC are communicated through issuance of ASUs. Unless otherwise discussed, the Company believes that the recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on its consolidated financial statements upon adoption.

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**NOTE 2 – INVENTORY**

Inventory consisted of the following:

|                        | <b>June 30,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|------------------------|--------------------------|------------------------------|
| Raw materials          | 1,879,084                | 1,839,641                    |
| Work in process        | 364,913                  | 557,146                      |
| Finished goods         | 1,669,567                | 551,000                      |
| <b>Total Inventory</b> | <b>\$3,913,564</b>       | <b>\$ 2,947,787</b>          |

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following:

|                    | <b>June 30,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|--------------------|--------------------------|------------------------------|
| Permit of land use | \$ 389,808               | \$ 404,427                   |
| Building           | 9,051,949                | 9,391,433                    |

|   |                     |                     |
|---|---------------------|---------------------|
| Plant, machinery and equipment            | 26,760,223          | 27,780,585          |
| Motor vehicle                             | 297,683             | 438,138             |
| Office equipment                          | 380,460             | 308,847             |
| <b>Total</b>                              | <b>36,880,123</b>   | <b>38,323,430</b>   |
| Less: accumulated depreciation            | (28,539,283)        | (28,350,365)        |
| <b>Property, plant and equipment, net</b> | <b>\$ 8,340,840</b> | <b>\$ 9,973,065</b> |

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

| <b>Asset</b>                   | <b>Life - years</b> |
|--------------------------------|---------------------|
| Permit of land use             | 40 - 70             |
| Building                       | 20 - 49             |
| Plant, machinery and equipment | 5 - 10              |
| Motor vehicle                  | 5 - 10              |
| Office equipment               | 3-5                 |

Depreciation relating to office equipment was included in general and administrative expenses, while all other depreciation was included in cost of revenue. Depreciation expense was \$640,979 and \$673,931 for the three months ended June 30, 2023 and 2022, respectively and \$1,265,700 and \$1,377,608 for the six months ended June 30, 2023 and 2022, respectively.

**CHINA PHARMA HOLDINGS, INC.**  
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**NOTE 4 – INTANGIBLE ASSETS**

Intangible assets represent the cost of medical formulas approved for production by the NMPA and the intellectual property acquired in November 2022 from Chengdu Bonier Medical Technology Development Co., Ltd (“Bonier”). On November 28, 2022, Helpson entered into a Technology Transfer Contract (the “Bonier Agreement”) with Bonier regarding a technical invention and creation of an ophthalmic oxygen enriched atomization therapeutic instrument, pursuant to which Helpson has been granted a utility model patent (the “Utility Model Patent”) and applied for an invention patent (the “Invention Patent”). The Company did not obtain NMPA production approval for any new medical formulas during the six months ended June 30, 2023 and 2022 and no costs were reclassified from advances to intangible assets during the six months ended June 30, 2023 and 2022, respectively. On August 9, 2023 the Company obtained the “Drug Supplementary Application Approval Notice” from the NMPA informing the Company that the Company’s Candesartan tablets have passed the quality and efficacy consistency evaluation of generic drugs.

Approved medical formulas are amortized from the date NMPA approval is obtained over their individually identifiable estimated useful life, which range 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. Amortization expense relating to intangible assets was \$55,161 and \$9,680 for the three months ended June 30, 2023 and 2022, respectively and \$109,024 and \$18,963 for the six months ended June 30, 2023 and 2022, respectively which was included in the general and administrative expenses. Medical formulas typically do not have a residual value at the end of their amortization period.

Based on the Bonier Agreement, Helpson will pay a service fee of 15% of the net profit of the corresponding product sales revenue to Bonier, which will be paid in cash annually after it launches to the market, contingent on the successful authorization of the Invention Patent. There were no service fees paid for the six months ended June 30, 2023 and 2022, respectively.

The Company evaluates each approved medical formula for impairment at the date of NMPA approval, when indications of impairment are present and also at the date of each financial statement. The Company's evaluation is based on an estimated undiscounted net cash flow model, which considers 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 fair value of the medical formula, which is determined by the estimated discounted future net cash flows. No impairment loss was recognized during the six months ended June 30, 2023 and 2022.

Intangible assets consisted of NMPA approved medical formulas, a Utility Model Patent and an Invention Patent as follows:

|                          | <b>June 30,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|--------------------------|--------------------------|------------------------------|
| Gross carrying amount    | \$ 6,364,265             | \$ 6,554,628                 |
| Accumulated amortization | (4,680,089)              | (4,747,142)                  |
| Net carrying amount      | <u>\$ 1,684,176</u>      | <u>\$ 1,807,486</u>          |

#### **NOTE 5 – OTHER PAYABLES**

Other Payables consisted of the following:

|  | <b>June 30,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|--|--------------------------|------------------------------|
| Compensation payable to officer              | \$ 959,506               | \$ 951,506                   |
| Compensation and interest to related parties | 375,351                  | 372,578                      |
| Business taxes and other                     | 903,446                  | 1,065,979                    |
| <b>Total Other Payables</b>                  | <u>\$2,238,303</u>       | <u>\$ 2,390,063</u>          |

**CHINA PHARMA HOLDINGS, INC.**  
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#### **NOTE 6 – RELATED PARTY TRANSACTIONS**

A member of the Company's board of directors ("Board") had previously advanced to the Company an aggregate amount of \$1,354,567 as of June 30, 2023 and December 31, 2022 which is recorded as "Borrowings from related parties" on the accompanying unaudited interim condensed consolidated balance sheets. The advances bear interest at a rate of 1.0% per year. Total interest expense for each of the three months ended June 30, 2023 and 2022 was \$3,387 and \$3,387, respectively and \$6,773 and \$6,773 for the six months ended June 30, 2023 and 2022, respectively. Compensation and interest payable to the board member is included in "Other payables" in the accompanying unaudited interim condensed consolidated balance sheet totaling \$375,351 and \$372,578 as of June 30, 2023 and December 31, 2022, respectively.

The Company had previously received advances from its Chairperson, Chief Executive Officer and Interim Chief Financial Officer. Total amounts owed were \$1,095,956 and \$1,121,273 and are recorded as "Borrowings from related parties" on the accompanying condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022, respectively. On July 8, 2019 the Company entered into a loan agreement in exchange for cash of RMB 4,770,000 (\$738,379) with its Chairperson, Chief Executive Officer and Interim Chief Financial Officer. The loan bears interest at a rate of 4.35% and was payable within one year of the loan agreement. The due date of the loan agreement has been extended annually on identical terms, and is due July 9, 2024. Total interest expense related to the loan for the

three months ended June 30, 2023 and 2022 was \$6,945 and \$7,354, respectively and \$14,057 and \$15,023 for the six months ended June 30, 2023 and 2022, respectively. Compensation payable to the Chairperson, Chief Executive Officer and Interim Chief Financial Officer is included in “Other payables” in the accompanying condensed unaudited interim consolidated balance sheet totaling \$959,506 and \$951,506 as of June 30, 2023 and December 31, 2022, respectively.

#### **NOTE 7 – LINES OF CREDIT**

On June 25, 2021 the Company entered into a new loan with Bank of Communications bearing an interest rate of 4.17%. The Company paid all principal and interest on June 21, 2022 and on June 22, 2022 entered into a loan for the same principal amount bearing interest at 4.17% and due December 21, 2022. On December 21, 2022 the Company repaid the loan in full and entered into a new line of credit for an aggregate amount of RMB 7,300,000 (approximately \$1.0 million) with interest payable monthly at a rate of 3.9%. The line of credit is payable on December 20, 2023. The Company received an advance on the line of credit in the amount of RMB 3,800,000 (approximately \$0.56 million) on December 30, 2022. On February 24, 2023 the Company received an advance on the line in the amount of RMB 3,500,000 (approximately \$0.51 million). The Company has no further availability on this line of credit. In addition, the Company’s Chief Executive Officer and Chair of the Board personally guaranteed the new line of credit and pledged personal assets as collateral for the loan. Total interest expense under this facility for the three months ended June 30, 2023 and 2022 was \$5,465 and \$13,971, respectively and \$11,720 and \$27,925 for the six months ended June 30, 2023 and 2022, respectively.

In September 2021, the Company entered into a line of credit with China CITIC Bank in the amount of RMB 3,200,000 (approximately \$0.8 million). The loan bears interest at the rate of 4.50% per annum. The line of credit was paid in full on September 6, 2022. On September 9, 2022, the Company received a new line of credit in the same amount. The loan bears interest at a rate of 4.5% and is due on September 7, 2023. In addition, the Company’s Chief Executive Officer and Chair of the Board personally guaranteed the new line of credit and pledged personal assets as collateral for the loan. Total interest for the three months ended June 30, 2023 and 2022 was \$5,311 and \$5,676, respectively and \$10,568 and \$11,345 for the six months ended June 30, 2023 and 2022, respectively.

On September 18, 2021 the Company obtained a line of credit for RMB 10,000,000 (approximately \$1.54 million) with Bank of China. The loan bears interest at the rate of 3.85% per annum. The line of credit was paid in full on the due date of September 18, 2022. On September 30, 2022 the Company received a new line of credit in the same amount. The loan bears interest at the rate of 3.45% and is due September 28, 2023. The loan is collateralized by the Company’s new production facility and the included production line equipment and machinery. In addition, the Company’s Chief Executive Officer and Chair of the Board personally guaranteed the new line of credit. Total interest for the three months ended June 30, 2023 and 2022 was \$12,724 and \$15,175, respectively and \$25,320 and \$30,332 for the six months ended June 30, 2023 and 2022, respectively.

Principal payments required for the remaining terms of the loan facility and lines of credit as of June 30, 2023 are as follows:

| <b>Year</b> | <b>Lines<br/>of Credit</b> |
|-------------|----------------------------|
| 2023        | <u>\$ 2,837,056</u>        |
|             | <u><u>\$ 2,837,056</u></u> |

**Fair Value of Lines of Credit** – Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the carrying amounts of the lines of credit outstanding as of June 30, 2023 and December 31, 2022 approximated their fair values because the underlying instruments bear an interest rate that approximates current market rates.

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**NOTE 8 – CONVERTIBLE NOTE PAYABLE**

On November 17, 2021, China Pharma entered into a Securities Purchase Agreement (the “Agreement”) pursuant to which the Company issued an unsecured convertible promissory note (the “Note”) to an institutional accredited investor Streeterville Capital, LLC (the “Investor”). The transaction contemplated under the Agreement was closed on November 19, 2021. The Note matured on February 17, 2023. On April 13, 2023 China Pharma entered into an Amendment (the “Amendment”) with the Investor which extended the maturity date of the Convertible Note Payable to May 19, 2024. As consideration for the extension, China Pharma agreed to an extension fee of \$65,639, representing 2.0% of the balance of the Note and accrued interest on the date of the Amendment. The amount was satisfied by increasing the Note balance by the amount of the extension fee. The Company recorded this as additional interest expense during the second quarter of 2023. In addition, China Pharma decreased the price at which the Investor can convert the balance from 85% to 82% of the lowest daily volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion, and assumed an additional obligation to redeem a portion of the outstanding balance of the Note monthly or be subject to additional penalty fees.

The Note was originally convertible into 350,000 shares of China Pharma’s common stock at a price of \$15.00 per share through April 19, 2022. Thereafter, the Note was convertible into 175,000 shares at a price of \$30.00 per share. As of June 30, 2023 the Note is convertible into 78,333 shares of common stock.

Interest accrues on the outstanding balance of the Note at 5% per annum compounded daily. Upon the occurrence of an Event of Default as defined in the Note, interest accrues at the lesser of 22% per annum or the maximum rate permitted by applicable law. In addition, upon any Event of Default, the Investor may accelerate the outstanding balance payable under the Note, which will increase automatically upon such acceleration by 15% or 5%, depending on the nature of the Event of Default.

Pursuant to the terms of the Agreement and the Note, the Company must obtain Investor’s consent for certain fundamental transactions such as consolidation, merger with or into another entity (except for a reincorporation merger), disposition of substantial assets, change of control, reorganization or recapitalization. Any occurrence of a fundamental transaction without Investor’s prior written consent will be deemed an Event of Default.

Investor may redeem all or any part the outstanding balance of the Note, subject to \$500,000 per calendar month, at any time after one hundred twenty-one (121) days from the Purchase Price Date, as defined in the Note, upon three trading days’ notice, in cash or converting into shares of China Pharma’s common stock, at a price equal to 82% multiplied by the lowest daily volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion, subject to certain adjustments and ownership limitations specified in the Note. The Note provides for liquidated damages upon failure to comply with any of the terms or provisions of the Note. The Company may prepay the outstanding balance of the Note with the Investor’s consent. At inception, the Note was redeemable into 881,143 shares based on the lowest volume weighted average price of \$5.95817 on the inception date of November 19, 2021. As of June 30, 2023, the Note was redeemable into 8,180,708 shares of common stock based on 82% of the lowest volume weighted average price of \$0.350 on that date.

Total interest expense for the three months ended June 30, 2023 and 2022 was \$105,545 and \$63,585, respectively and \$151,563 and \$131,271 for the six months ended June 30, 2023 and 2022, respectively.

On January 5, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.763, which was 85% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 196,592 shares of common stock to the Investor on January 6, 2023.

On January 18, 2023 the Investor delivered its notice of redemption for \$250,000 of the Note and related interest at the conversion price of \$0.763, which was 85% of the lowest volume weighted average price during the ten trading

days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 327,654 shares of common stock to the Investor on January 19, 2023.

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On March 2, 2023 the Investor delivered its notice of redemption for \$250,000 of the Note and related interest at the conversion price of \$0.575, which was 85% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 434,783 shares of common stock to the Investor on March 7, 2023.

On April 7, 2023 the Investor delivered its notice of redemption for \$200,000 of the Note and related interest at the conversion price of \$0.2808, which was 85% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 712,250 shares of common stock to the Investor on April 13, 2023.

On May 1, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2644, which was 85% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 567,322 shares of common stock to the Investor on May 4, 2023.

On May 24, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2487, which was 82% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 603,136 shares of common stock to the Investor on May 25, 2023.

On June 6, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2656, which was 82% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 564,759 shares of common stock to the Investor on June 14, 2023.

On June 23, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2845, which was 82% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 527,240 shares of common stock to the Investor on June 27, 2023.

On August 9, 2023, the Investor delivered an additional notice of redemption as discussed in Note 14.

**NOTE 9 – LEASES**

The Company has leases for certain office and production facilities in the PRC which are classified as operating leases. The leases contain payment terms for fixed amounts. Options to extend are recognized as part of the lease liabilities and recognized as right to use assets when management estimates to renew the lease. There are no residual value guarantees, no variable lease payments, and no restrictions or covenants imposed by leases. The discount rate used in measuring the lease liabilities and right of use assets was determined by reviewing the Company's incremental borrowing rate at the initial measurement date. For the three months ended June 30, 2023 and 2022, operating lease cost was \$17,848 and \$19,101, respectively and cash paid for amounts included in the measurement of lease liabilities for operating cash flows from operating leases was \$18,744 and \$20,060, respectively. For the six months ended June 30, 2023 and 2022, operating lease cost was \$37,635 and \$40,519, respectively and cash paid for amounts included in the measurement of lease liabilities for operating cash flows from operating leases was \$39,525 and \$42,554, respectively. As of June 30, 2023 and December 31, 2022, the Company reported operating lease right of use assets

of \$152,401 and \$39,046, respectively and operating use liabilities of \$152,401 and \$40,445, respectively. As of June 30, 2023, its operating leases had a weighted average remaining lease term of 2.0 years and a weighted average discount rate of 3.55%.

Minimum lease payments for the Company's operating lease liabilities were as follows for the twelve month periods ended June 30:

|   |                  |
|---|------------------|
| 2024  | \$ 79,050        |
| 2025  | 79,050           |
| Total undiscounted cash flows                       | 158,100          |
| Less: Imputed interest                              | (5,699)          |
|   | 152,401          |
| Less: Operating lease liabilities, current portion  | (74,850)         |
| Operating lease liabilities, net of current portion | <u>\$ 77,551</u> |

The Company has leases with terms less than one year for certain provincial sales offices that are not material.

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**NOTE 10 – 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 of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Liabilities are established for uncertain tax positions expected to be taken in income tax returns when such positions are judged to meet the “more-likely-than-not” threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax positions are included as a component of other expenses. Through December 31, 2022, the Company has not identified any uncertain tax positions that it has taken. U.S. income tax returns for the years ended December 31, 2018 through December 31, 2022 and the Chinese income tax return for the year ended December 31, 2022 are open for possible examination.

Under the current tax law in the PRC, the Company is and will be subject to the enterprise income tax rate of 25%.

There was no provision for income taxes for the six months ended June 30, 2023 and 2022, respectively due to continued net losses of the Company.

As of June 30, 2023, Helpson had net operating loss carryforwards for PRC tax purposes of approximately \$20.0 million which are available to offset any future taxable income through 2028. Approximately \$3.3 million of these carryforwards will expire in December 2023. The Company also has net operating losses for United States federal income tax purposes of approximately \$9.2 million of which \$5.1 million is available to offset future taxable income, if any, through 2039, and \$4.1 million are available for carryforward indefinitely subject to a limitation of 80% of taxable income for each tax year.

U.S. federal tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the “U.S. Tax Reform”), was signed into law on December 22, 2017. The U.S. Tax Reform significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transition tax on a mandatory deemed repatriation of previously deferred foreign

earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible or tax loss carry forwards are utilized. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon an assessment of the level of historical taxable income and projections for future taxable income over the periods on which the deferred tax assets are deductible or can be utilized, management believes it is not likely for the Company to realize all benefits of the deferred tax assets as of June 30, 2023 and December 31, 2022. Therefore, the Company provided for a valuation allowance against its deferred tax assets of \$21,499,766 and \$21,985,554 as of June 30, 2023 and December 31, 2022, respectively.

The Company 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.

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**NOTE 11 – 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; and 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 at June 30, 2023 and December 31, 2022. The banker’s acceptance notes are recorded at cost which approximates fair value. The Company held the following assets and liabilities recorded at fair value:

| <b>Description</b>        | <b>June 30,<br/>2023</b> | <b>Fair Value Measurements at<br/>Reporting Date Using</b> |                |                |
|---------------------------|--------------------------|--|----------------|----------------|
|                           |                          | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> |
| Banker’s acceptance notes | \$ 80,406                | \$ -   | \$ 80,406      | \$ -           |
| Total                     | \$ 80,406                | \$ -   | \$ 80,406      | \$ -           |

  

| <b>Description</b>        | <b>December 31,<br/>2022</b> | <b>Fair Value Measurements at<br/>Reporting Date Using</b> |                |                |
|---------------------------|------------------------------|--|----------------|----------------|
|                           |                              | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> |
| Banker’s acceptance notes | \$ 13,784                    | \$ -   | \$ 13,784      | \$ -           |



|       |    |        |    |   |    |        |    |   |
|-------|----|--------|----|---|----|--------|----|---|
| Total | \$ | 13,784 | \$ | - | \$ | 13,784 | \$ | - |
|-------|----|--------|----|---|----|--------|----|---|

**NOTE 12 – STOCKHOLDERS’ EQUITY**

China Pharma is authorized to issue 500,000,000 shares of common stock, \$0.001 par value, and 5,000,000 shares of preferred stock, \$0.001 par value. The preferred stock may be issued in series with such designations, preferences, stated values, rights, qualifications or limitations as determined solely by the Board of China Pharma.

According to relevant PRC laws, companies registered in the PRC, including China Pharma’s PRC subsidiary, Helpson, are required to allocate at least 10% of their after tax income, as determined under the accounting standards and regulations in the PRC, to statutory surplus reserve accounts until the reserve account balances reach 50% of the company’s 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. The amount designated for general and statutory capital reserves is \$8,145,000 at June 30, 2023 and December 31, 2022.

Effective March 6, 2023 China Pharma implemented a 1-for-10 reverse split of its common stock. The reverse stock split was approved by the Company’s Board of Directors through unanimous written consent and China Pharma’s stockholders at its Annual Meeting for the fiscal year ended on December 31, 2021, which was held on December 27, 2022. Upon the effectiveness of the reverse stock split, every 10 shares of China Pharma’s issued and outstanding common stock were automatically converted into one share of issued and outstanding common stock. No fractional shares were issued as a result of the reverse stock split. Instead, any fractional shares that resulted from the split were rounded up to the next whole number. The reverse stock split affects all stockholders uniformly and does not alter any stockholder’s percentage interest in China Pharma’s outstanding common stock, except for adjustments that may result from the treatment of fractional shares. All share and per share amounts have been retroactively restated for all periods presented in the accompanying unaudited condensed consolidated financial statements.

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**2023 Share Issuances**

On January 5, 2023 the Investor as discussed in Note 8 delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.763, which was 85% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 196,592 shares of common stock to the Investor on January 6, 2023.

On January 18, 2023 the Investor as discussed in Note 8 delivered its notice of redemption for \$250,000 of the Note and related interest at the conversion price of \$0.763, which was 85% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 327,654 shares of common stock to the Investor on January 19, 2023.

On March 2, 2023 the Investor as discussed in Note 8 delivered its notice of redemption for \$250,000 of the Note and related interest at the conversion price of \$0.575, which was 85% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 434,783 shares of common stock to the Investor on March 7, 2023.

On April 7, 2023 the Investor delivered its notice of redemption for \$200,000 of the Note and related interest at the conversion price of \$0.2808, which was 85% of the lowest volume weighted average price during the ten trading days

immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 712,250 shares of common stock to the Investor on April 13, 2023.

On May 1, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2644, which was 85% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 567,322 shares of common stock to the Investor on May 4, 2023.

On May 24, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2487, which was 82% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 603,136 shares of common stock to the Investor on May 25, 2023.

On June 6, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2656, which was 82% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 564,759 shares of common stock to the Investor on June 14, 2023.

On June 23, 2023 the Investor delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2845, which was 82% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, China Pharma issued a total of 527,240 shares of common stock to the Investor on June 27, 2023.

#### *2010 Incentive Plan*

On November 12, 2010, China Pharma's Board adopted the 2010 Incentive Plan (the "Plan"), which was then approved by stockholders on December 22, 2010. On October 17, 2019, the Board of Directors approved the First Amendment to the 2010 Incentive Plan (the "Amendment"), pursuant to which the term of the 2010 Incentive Plan was extended to December 31, 2029. The Amendment was adopted by the stockholders on December 19, 2019. On October 25, 2021, the Board of Directors approved, and on December 27, 2021 our stockholders adopted the Amendment No.2 to the Plan to increase the number of shares of the Common Stock, that are reserved thereunder by 500,000 shares from 400,000 shares to 900,000 shares. On October 27, 2022 the Board of Directors approved and on December 27, 2022, the stockholders adopted the Amended and Restated 2010 Long Term Incentive Plan to increase the number of shares of common stock that are reserved thereunder by an additional 500,000 shares from 900,000 to 1,400,000. The Plan gave China Pharma 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 China Pharma and/or its subsidiaries. The Plan currently allows for equity awards of up to 1,400,000 shares of common stock. Through June 30, 2022, there were 490,000 shares of stock and stock options granted under the Plan. A total of 66,500 options were outstanding as of June 30, 2023 under the Plan. As such, there are 910,000 additional shares available for issuance under the Plan.

As of June 30, 2023, there was no remaining unrecognized compensation expense related to stock options or restricted stock grants.

**CHINA PHARMA HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED JUNE 30, 2023 AND 2022 (UNAUDITED)**

#### **NOTE 13 – RISKS & UNCERTAINTIES**

##### **Current vulnerability due to certain concentrations**

For the six months ended June 30, 2023, no customer accounted for greater than 10.0% of sales and three customers accounted for 53.4%, 11.5% and 10.5% of accounts receivable. Two suppliers accounted for 19.5% and 18.0% of raw material purchases, and five different products accounted for 22.4%, 19.8%, 11.8%, 10.9% and 10.0% of revenue.

For the six months ended June 30, 2022, one customer accounted for 10.2% of sales and three customers accounted for 53.3%, 11.5% and 10.4% of accounts receivable. Three suppliers accounted for 22.4%, 15.8% and 13.6% of raw material purchases, and three different products accounted for 25.6%, 24.9% and 14.6% of revenue.

## **Nature of Operations**

**Impact from the New Coronavirus Global Pandemic (“COVID-19”)** - Although the outbreak of COVID-19 since the first quarter 2020 has been under control, and China has returned to normal production and social life in an orderly manner, China is still encountering resurgences in its major cities. For now, these resurgences have not caused material impact to our daily operations, However, we cannot ensure that any future resurgence will not cause substantial influence onto our business. If that happens, any disruption or delay of the Company’s suppliers or customers in the future would likely impact its sales and operating results.

**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 14 – SUBSEQUENT EVENTS**

On August 9, 2023, the Company received a “Drug Supplementary Application Approval Notice” from NMPA. Please refer to Note 4 – Intangible Assets for details.

On August 9, 2023, the Investor discussed in Note 8 delivered its notice of redemption for \$150,000 of the Note and related interest at the conversion price of \$0.2143, which was 82% of the lowest volume weighted average price during the ten trading days immediately preceding the applicable redemption conversion. Accordingly, the Company issued a total of 699,953 shares of common stock to the Investor on August 11, 2023.

## **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,” or the negative thereof or other variations thereon, or by discussions of strategy that involve risks and uncertainties. Management wishes to caution the readers that any such forward-looking statements 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 (the “SEC”). 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 Holding Inc. (“China Pharma”) is not a Chinese operating company but a Nevada holding company. All of our operations are conducted in the PRC through Hainan Helpson Medical & Biotechnology Co., Ltd (“Helpson”), our wholly owned subsidiary incorporated under the laws of the People’s Republic of China (the “PRC”), where our manufacturing facilities are located. China Pharma, collectively with Helpson, are referred to as “We”, “Our”, “Us”, or the “Company”. We are principally engaged in the development, manufacture and marketing of pharmaceutical products for human use in connection with a variety of high-incidence and high-mortality diseases and medical conditions prevalent in the PRC. We manufacture pharmaceutical products in the form of dry powder injectables, liquid injectables, tablets, capsules, and cephalosporin oral solutions. The majority of our pharmaceutical products are sold on a prescription basis and all of them have been approved for at least one or more therapeutic indications by the National Medical Products Administration (the “NMPA”, formerly China Food and Drug Administration, or CFDA) based upon demonstrated safety and efficacy.

China’s consistency evaluation of generic drugs continues to proceed in 2023. We have always taken the task of promoting the consistency evaluation as a top priority, and worked on them actively. However, for each drug’s consistency evaluation, due to the continuous dynamic changes of the detailed consistency evaluation policies, market trends, expected investments, and expected returns of investment (“ROI”), the whole industry, including us, has been making slow progresses in terms of the consistency evaluation. One of our flagship products, Candesartan tablets, a hypertension product, has passed generic-drug-consistency-evaluation in early August 2023.

Helpson has taken a more cautious and flexible attitude towards initiating and progressing any project for existing products’ consistency evaluation to cope with the changing macro environment of drug sales in China. In 2018, relevant Chinese authorities decided to implement trial Centralized Procurement (“CP”) activities in 11 selected pilot cities (including 4 municipalities and 7 other cities), since ) then, eight rounds of CP activities have been carried out as of June 30, 2023, which significantly reduced the price of the drugs that won the bids. In addition, the consistency evaluation has been adopted as one of the qualification standards for participating in the CP activities. As a result, Helpson needs to balance at least the two factors above (namely, the investment of financial resources and time to obtain the qualification of CP, and the sharp decline in the price of drugs included in CP) before making decisions for any products.

In addition, we continue to explore the field of comprehensive healthcare. Comprehensive healthcare is a general concept proposed by the Chinese government according to the development of the times, social needs and changes in disease spectrum. According to the Outline of “Healthy China 2030” issued by Chinese government in October 2016, the total size of China’s health service industry will reach RMB 16 trillion (approximately \$2.5 trillion) by 2030. This industry focuses on people’s daily life, aging and diseases, pays attention to all kinds of risk factors and misunderstandings affecting health, calls for self-health management, and advocates the comprehensive care throughout the entire process of life. It covers all kinds of health-related information, products and services, as well

as actions taken by various organizations to meet the health needs. In response to this trend, we launched Noni enzyme, a natural, Xeronine-rich antioxidant food supplement at the end of 2018. We also launched wash-free sanitizers and masks, in 2020, to address the market needs caused by COVID-19 in China. As Chinese government officially terminated its zero-case policy, now the responsibility to protect people from the impact of COVID-19 falls more to the citizens themselves, and masks and sanitizers have been more and more popular due to increasing demand. Helpson has sufficient production capacity for medical masks, surgical masks, KN95 masks, and N95 masks, which meets the personal needs for protection against the epidemic outbreak. Thanks to the green channel provided by Hainan Medical Products Administration, Helpson received the Registration Certificate of N95 medical protective mask at the fastest speed by the end of 2022, when the infection of COVID-19 had surged in China.

We will continue to optimize our product structure and actively respond to the current health needs of human beings.

## Results of Operations for the three months ended June 30, 2023

### Revenue

Revenue decreased by 31.9% to \$1.1 million for the three months ended June 30, 2023, as compared to \$1.6 million for the three months ended June 30, 2022. This decrease was mainly due to the phenomenon of drug hoarding in the first quarter of 2023 after the lifting up of COVID-19 control measures in China at the end of 2022. Therefore, the need for drug procurement decreased in the following second quarter of 2023.

Set forth below are our revenues by product category in millions (USD) for the three months ended June 30, 2023 and 2022:

| Product Category                    | Three Months Ended<br>June 30, |      | Net<br>Change | %<br>Change |
|-------------------------------------|--------------------------------|------|---------------|-------------|
|                                     | 2023                           | 2022 |               |             |
| CNS Cerebral & Cardio Vascular      | 0.35                           | 0.55 | -0.20         | -36%        |
| Anti-Viral/ Infection & Respiratory | 0.47                           | 0.69 | -0.22         | -32%        |
| Digestive Diseases                  | 0.17                           | 0.11 | 0.06          | 55%         |
| Other                               | 0.11                           | 0.27 | -0.16         | -59%        |

The most significant revenue decrease in terms of dollar amount was in our “Anti-Viral/ Infection & Respiratory” product category, which generated \$0.47 million in sales revenue in the three months ended June 30, 2023 compared to \$0.69 million for the same period a year ago, a decrease of \$0.22 million. This decrease was mainly due to the decrease in sales of Roxithromycin Dispersible Tablet because of the lower need in the second quarter due to the significant hoarding of drugs in the first quarter of 2023.

Our “CNS Cerebral & Cardio Vascular” product category sales decreased by \$0.20 million to \$0.35 million in the three months ended June 30, 2023 from \$0.55 million for the same period in 2022, which was mainly due to the decrease in sales of Candesartan that was caused by market volatility.

Sales under “Other” product category generated \$0.11 million in sales revenue in the three months ended June 30, 2023 compared to \$0.27 million for the same period a year ago, which is a decrease of \$0.16 million. This decrease was mainly due to the decrease in sales of Vitamin B6 for Injection, which was caused by market volatility.

Our “Digestive Diseases” product category generated \$0.17 million of sales in the three months ended June 30, 2023, compared to \$0.11 million in the same period in 2022. This increase was mainly due to the increase in sales of Omeprazole triggered by higher market demand after China lifting up epidemic control at the end of 2022.

| <b>Product Category</b>             | <b>Three Months Ended<br/>June 30,</b> |             |
|-------------------------------------|--|-------------|
|                                     | <b>2023</b>                            | <b>2022</b> |
| CNS Cerebral & Cardio Vascular      | 32%                                    | 34%         |
| Anti-Viral/ Infection & Respiratory | 43%                                    | 43%         |
| Digestive Diseases                  | 15%                                    | 7%          |
| Other                               | 10%                                    | 16%         |

For the three months ended June 30, 2023, revenue breakdown by product category showed certain changes to that of the same period in 2022. Sales of the “Anti-Viral/Infection & Respiratory” products category represented both 43% of total sales in the three months ended June 30, 2023 and 2022, respectively. The “CNS Cerebral & Cardio Vascular” product category represented 32% and 34% of total revenue in the three months ended June 30, 2023 and 2022, respectively. The “Other” product category represented 10% and 16% of revenues in the three months ended June 30, 2023 and 2022, respectively. The “Digestive Diseases” product category represented 15% and 7% of total revenue in the three months ended June 30, 2023 and 2022, respectively.

### ***Cost of Revenue***

For the three months ended June 30, 2023, our cost of revenue was \$1.2 million, or 113.4% of total revenue, while cost of revenue was \$1.8 million, or 114.2% of total revenue, for the same period in 2022.

### ***Gross Loss and Gross Margin***

Gross loss for the three months ended June 30, 2023 was \$0.15 million, as compared to \$0.23 million during the same period in 2022. For the three months ended June 30, 2023, we had a gross loss margin of 13.4% as compared to a gross loss margin of 14.2% during the same period in 2022.

### ***Selling Expenses***

Our selling expenses for the three months ended June 30, 2023 and 2022 were \$0.17 million and \$0.26 million, respectively. Selling expenses accounted for 15.5% of the total revenue for the three months ended June 30, 2023, as compared to 16.5% during the same period in 2022. As a result of the adjustment of many policies of healthcare reformation, we had reduced the number of personnel and expenses to efficiently support our sales and the collection of accounts receivable.

### ***General and Administrative Expenses***

Our general and administrative expenses were \$0.11 million and \$0.27 million for the three months ended June 30, 2023 and 2022, respectively. It accounted for 10.2% and 16.9% of our total revenues in the three months ended June 30, 2023 and 2022, respectively.

### ***Research and Development Expenses***

Our research and development expenses for the three months ended June 30, 2023 and 2022 were both \$0.02 million, respectively. Research and development expenses accounted for 2.2% and 0.9% of our total revenues for the three months ended June 30, 2023 and 2022, respectively. These expenditures were mainly for the consistency evaluations of our existing products.

### ***Bad Debt Expenses (Benefit)***

Our bad debt expense for the three months ended June 30, 2023 were \$4,047, as compared to bad debt benefit of \$4,358 for the same period in 2022.

In general, our normal customer credit or payment terms are 180 days. This has not changed in recent years. Due to the peculiar environment affecting the Chinese pharmaceutical market, deferred payments to pharmaceutical companies by state-owned hospitals and local medicine distributors are common.

The amount of accounts receivable that was past due (or the amount of accounts receivable that was more than 180 days old) was \$0.02 million and \$0.03 million as of June 30, 2023 and December 31, 2022, respectively.

The following table illustrates our accounts receivable aging distribution in terms of percentage of total accounts receivable as of June 30, 2023 and December 31, 2022:

|                | <b>June 30,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|----------------|--------------------------|------------------------------|
| 1 - 180 Days   | 1.55%                    | 2.08%                        |
| 180 - 360 Days | 0.11%                    | 0.10%                        |
| 360 - 720 Days | 0.10%                    | 0.20%                        |
| > 720 Days     | 98.24%                   | 97.62%                       |
| Total          | <u>100.00%</u>           | <u>100.00%</u>               |

Our bad debt allowance estimate practice is that we consider accounts receivable balances aged within 180 days current, except for any individual uncollectible account assessed by management. We account for the following respective percentage as bad debt allowance based on age of the accounts receivables: 10% of accounts receivable that is between 180 days and 365 days old, 70% of accounts receivable that is between 365 days and 720 days old, and 100% of accounts receivable that is greater than 720 days old.

We recognize bad debt expenses per actual write-offs as well as changes of allowance for doubtful accounts. To the extent that our current allowance for doubtful accounts is higher than that of the previous period, we recognize a bad debt expense for the difference during the current period, and when the current allowance is lower than that of the previous period, we recognize a bad debt credit for the difference. The allowance for doubtful account balances were \$16.1 million and \$16.7 million as of June 30, 2023 and December 31, 2022, respectively. The changes in the allowances for doubtful accounts during the three months ended June 30, 2023 and 2022 were as follows:

|   | <b>For the Three<br/>Months Ended<br/>June 30,</b> |                   |
|---|--|-------------------|
|   | <b>2023</b>  | <b>2022</b>       |
| Balance, Beginning of Period            | 16,955,959   | \$18,384,642      |
| Bad debt expense (benefits)             | 4,047  | (4,358)           |
| Foreign currency translation adjustment | (834,751)  | \$ (995,400)      |
| Balance, End of Period                  | <u>16,125,255</u>                                  | <u>17,384,884</u> |

### ***Loss from Operations***

Our operating loss for the three months ended June 30, 2023 was \$0.4 million, compared to an operating loss of \$0.8 million during the same period in 2022.

### ***Net Interest Expense***

Net interest expense for the three months ended June 30, 2023 was \$0.14 million, as compared to \$0.11 million for the same period in 2022.

### **Net Loss**

Net loss for the three months ended June 30, 2023 was \$0.6 million, as compared to a net loss of \$0.9 million for the same period a year ago. The decrease in net loss was mainly the result of decreased cost and expenses in this period.

Loss per basic and diluted common share were \$0.06 for the three months ended June 30, 2023 and \$0.18 for the same period in 2022.

The number of basic and diluted weighted-average outstanding shares used to calculate loss per share were 9,916,180 and 4,848,867 for the three months ended June 30, 2023 and 2022.

### **Results of operations for the six months ended June 30, 2023**

#### **Revenue**

Revenue was \$3.1 million and \$3.2 million for the six months ended June 30, 2023 and 2022, respectively.

Set forth below are our revenues by product category in millions (USD) for the six months ended June 30, 2023 and 2022, respectively:

| <b>Product Category</b>             | <b>Six Months Ended<br/>June 30,</b> |             | <b>Net<br/>Change</b> | <b>%<br/>Change</b> |
|-------------------------------------|--------------------------------------|-------------|-----------------------|---------------------|
|                                     | <b>2023</b>                          | <b>2022</b> |                       |                     |
| CNS Cerebral & Cardio Vascular      | 0.75                                 | 0.84        | -0.09                 | -11%                |
| Anti-Viral/ Infection & Respiratory | 1.47                                 | 1.74        | -0.27                 | -16%                |
| Digestive Diseases                  | 0.37                                 | 0.17        | 0.20                  | 118%                |
| Other                               | 0.47                                 | 0.47        | 0.00                  | 0%                  |

The most significant revenue decrease in terms of dollar amount was our “Anti-Viral/ Infection & Respiratory” product category, which generated \$1.47 million in sales revenue in the six months ended June 30, 2023 compared to \$1.74 million in the same period a year ago, represented a decrease of \$0.27 million that was mainly caused by the decrease in sales of Roxithromycin Dispersible Tablet as our such product is not yet eligible to participate in the national procurement).

Sales of our “CNS Cerebral & Cardio Vascular” was \$0.75 million in sales revenue in the six months ended June 30, 2023, compared to \$0.849 million in the same period a year ago, which represented a decrease of \$0.09 million. This decrease was mainly due to sales decrease of Ozagrel Sodium for Injection caused by market volatility.

Sales of “Others” product category generated \$0.47 million in sales revenue in each of the six months ended June 30, 2023 and 2022, respectively.

Sales of our “Digestive Diseases” product category generated \$0.37 million in the six months ended June 30, 2023, and \$0.17 million in the six months ended June 30, 2022. This increase was mainly due to the increase in sales of Omeprazole triggered by higher market demand after China lifting up epidemic control at the end of 2022.

| <b>Product Category</b>             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------------------------------|--------------------------------------|-------------|
|                                     | <b>2023</b>                          | <b>2022</b> |
| CNS Cerebral & Cardio Vascular      | 25%                                  | 26%         |
| Anti-Viral/ Infection & Respiratory | 48%                                  | 54%         |
| Digestive Diseases                  | 12%                                  | 5%          |
| Other                               | 15%                                  | 15%         |



For the six months ended June 30, 2023, revenue breakdown by product category remained similar to that of the same period in 2022. The “Anti-Viral/Infection & Respiratory” products category represented 48% and 54% of total revenues in the six months ended June 30, 2023 and 2022. The “CNS Cerebral & Cardio Vascular” category represented 25% and 26% of total revenue in the six months ended June 30, 2023 and 2022, respectively. The “Others” category represented 15% of revenues in both the six months ended June 30, 2023 and 2022, respectively. And the “Digestive Diseases” category represented 12% and 5% of total revenue in the six months ended June 30, 2023 and 2022, respectively.

### ***Cost of Revenue***

For the six months ended June 30, 2023, our cost of revenue was \$3.0 million, or 99.0% of total revenue, comparing to \$3.6 million, or 112.4% of total revenue, in the same period in 2022. The decrease in proportion to cost of revenue in this period was mainly due to the fact that the price of our certain products increased in this period.

### ***Gross Profit (Loss) and Gross Margin***

Gross profit for the six months ended June 30, 2023 was \$0.03 million, compared to gross loss of \$0.4 million in the same period in 2022. Our gross profit margin in the six months ended June 30, 2023 was 1.0% compared to a gross loss margin of 12.4% in the same period in 2022. The improvement of gross margin in this period was mainly due to the decreased cost.

### ***Selling Expenses***

Our selling expenses for the six months ended June 30, 2023 and 2022 were \$0.3 million and \$0.4 million, respectively. Selling expenses accounted for 10.3% of the total revenue in the six months ended June 30, 2023 compared to 13.9% in the same period in 2022.

### ***General and Administrative Expenses***

Our general and administrative expenses for the six months ended June 30, 2023 were \$0.5 million, as compared to \$0.8 million in the same period in 2022. Our general and administrative expenses accounted for 17.3% and 24.5% of our total revenues in the six months ended June 30, 2023 and 2022, respectively.

### ***Research and Development Expenses***

Our research and development expenses for the six months ended June 30, 2023 and 2022 were \$0.05 million and \$0.07 million, respectively. The decrease in research and development costs is mainly due to the fact that most of the consistency evaluation of our key product, Candesartan, was completed last year.

### ***Bad Debt Benefit***

Our bad debt benefit was \$5,989 for the six months ended June 30, 2023, and \$9,879 for the six months ended June 30, 2022.

The changes in the allowances for doubtful accounts during the six months ended June 30, 2023 and 2022 were as follows:

| <b>For the Six Months<br/>Ended<br/>June 30,</b> |             |
|--|-------------|
| <b>2023</b>                                      | <b>2022</b> |

|   |                     |                     |
|---|---------------------|---------------------|
| Balance, Beginning of Period            | \$16,739,527        | \$18,312,707        |
| Bad debt expense                        | (5,989)             | (9,879)             |
| Foreign currency translation adjustment | (608,283)           | (917,944)           |
| Balance, End of Period                  | <u>\$16,125,255</u> | <u>\$17,384,884</u> |

### ***Loss from Operations***

Our operating loss for the six months ended June 30, 2023 was \$0.9 million, compared to \$1.7 million in the same period in 2022.

### ***Net Interest Expense***

Net interest expense for the six months ended June 30, 2023 was \$0.22 million, compared to \$0.23 million for the same period in 2022.

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### ***Net Loss***

Net loss for the six months ended June 30, 2023 was \$1.1 million, as compared to net loss of \$1.9 million for the six months ended June 30, 2022. The decrease of net loss was mainly a result of decreased cost expenses in this period.

For the six months ended June 30, 2023, loss per basic and diluted common share was \$0.12, compared to loss per basic and diluted common share of \$0.40 for the six months ended June 30, 2022.

The number of basic and diluted weighted-average outstanding shares used to calculate loss per share was 9,002,559 for the six months ended June 30, 2023, and 4,793,149 for the six months ended June 30, 2022.

### **Liquidity and Capital Resources**

Our principal source of liquidity is cash generated from operations, bank lines of credit and the Convertible Note Payable. Currently the Company has not witnessed or expected to encounter any difficulties to refinance those lines of credit this year. As of June 30, 2023, the aggregated advance from our CEO was \$1,095,956 for use in operations. Our cash and cash equivalents were \$0.9 million, representing 5.7% of our total assets, as of June 30, 2023, as compared to \$2.0 million, representing 11.4% of our total assets as of December 31, 2022. All of the \$0.9 million of cash and cash equivalents as of June 30, 2023 are considered to be reinvested indefinitely in the Company's Chinese subsidiary, Helpson and are not expected to be available for payment of dividends or for other payments to its parent company or to its shareholders.

The Company obtained various lines of credit in details described under Note 7 to its unaudited condensed consolidated financial statements contained in this report which is incorporated by reference herein.

China Pharma issued a convertible note to an institutional accredited investor as disclosed in Note 8 to the condensed consolidated financial statements contained in this report which is incorporated by reference herein.

Although the Company obtained additional lines of credit in 2022, there can be no assurance that the Company will be able to achieve its future strategic goal to accelerate the launch of nutrition products. This raises substantial doubt about the Company's ability to continue as a going concern. Although our Chairperson and Chief Executive Officer had advanced funds for working capital in 2022, there can be no assurances that this will be the case in the future. We may seek additional debt or equity financing as necessary when we believe the market conditions are the most advantageous to us and/or require us to reduce certain discretionary spending, which could have a material adverse effect on our ability to achieve our business objectives. There can be no assurance that any additional financing will be available on acceptable terms, if at all.

### ***Operating Activities***

Net cash used by operating activities was \$1.7 million for the six months ended June 30, 2023, compared to \$1.2 million in the same period in 2022.

As of June 30, 2023, our net accounts receivable was \$0.3 million, compared to \$0.4 million as of December 31, 2022.

Total inventory was \$3.9 million and \$2.9 million as of June 30, 2023 and December 31, 2022, respectively.

### ***Investing Activities***

There was \$60,465 provided by investing activities during the six months ended June 30, 2023, compared to \$176,682 used in investing activities for the same period in 2022.

### ***Financing Activities***

Cash flow provided by financing activities was \$0.52 million in the six months ended June 30, 2023; compared to cash flow used in financing activities of \$1.13 million for the same period in 2022.

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 the 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 June 30, 2023 and December 31, 2022, Helpson's net assets totaled (\$1,164,000) and \$(190,000), respectively. Due to the restriction on dividend distribution to overseas shareholders, the amount of Helpson's net assets that was designated for general and statutory capital reserves, and thus could not be transferred to our parent company as cash dividends, was 50% of Helpson's registered capital, which was both \$8,145,000 as of June 30, 2023 and December 31, 2022, respectively. The amount that Helpson must set aside for the statutory surplus fund accounts exceeds its total net assets at June 30, 2023 and December 31, 2022. There were no allocations to the statutory surplus reserve accounts during the six months ended June 30, 2023.

The Chinese government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. 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 the submission of a payment application form together with certain invoices and executed contracts. The currency exchange control procedures imposed by Chinese government authorities may restrict Helpson, our Chinese subsidiary, from transferring its net assets to our parent company through loans, advances or cash dividends.

### **Off-Balance Sheet Arrangements**

As of June 30, 2023, we did not have any off-balance sheet arrangements.

### **Critical Accounting Policies**

Management's discussion and analysis of our 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.

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### **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 our disclosure controls and procedures were not effective as of June 30, 2023 to satisfy the objectives for which they are intended. This was due to the material weakness in our internal control over financial reporting, with respect to our lack of accounting financial reporting personnel who were knowledgeable in U.S. GAAP, as disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on March 30, 2023. Notwithstanding the aforementioned material weakness, management has concluded that our condensed consolidated financial statements included in this report are fairly stated in all material respects in accordance with U.S. GAAP for each period presented herein.

#### **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.

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## **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, 2023

By: /s/ Zhilin Li

Name: Zhilin Li

Title: President and Chief Executive  
Officer  
(principal executive officer)

Date: August 14, 2023

By: /s/ Zhilin Li

Name: Zhilin Li

Title: Interim Chief Financial Officer  
(principal financial officer and  
principal accounting officer)

**EXHIBIT INDEX**

| <b>No.</b> | <b>Description</b>  |
|------------|---|
| 31.1 -     | <a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>                                 |
| 31.2 -     | <a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>                                 |
| 32.1 -     | <a href="#">Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a> |
| 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  |
| 104 -      | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)  |

