



**China Pharma Holdings, Inc.**

## **China Pharma Holdings, Inc. Reports Full Year 2010 Financial Results**

HAIKOU CITY, China, March 3, 2011 - China Pharma Holdings, Inc. (NYSE AMEX: CPHI) ("China Pharma" or the "Company"), a fully-integrated specialty pharmaceuticals company in China, today announced financial results for the year ended December 31, 2010.

### **Full Year Highlights**

- Revenue increased 21% to \$74.4 million in fiscal year 2010 from \$61.7 million in fiscal year 2009.
- Net income rose 30% to \$23.4 million in fiscal year 2010 from \$18.0 million in fiscal year 2009, with earnings per share rising \$0.11 to \$0.54 in fiscal year 2010 from \$0.43 in fiscal year 2009.
- Excluding adjustments for derivative gains/losses and a one-time bad debt estimate in third quarter 2009, net income climbed 23% from \$17.7 million in fiscal year 2009 to \$21.8 million in fiscal year 2010\*, with earnings per share rising from \$0.42 in fiscal year 2009 to \$0.50 in fiscal year 2010.
- Significant pipeline progress made:
  - Completion of clinical trials for Candesartan (now awaiting final production approval from the Chinese State Food and Drug Administration ("SFDA")).
  - Completion of clinical trials for Rosuvastatin (submitted application for final production approval to the SFDA).
  - Completion of Phase I clinical trials of our cephalosporin-based combination antibiotic.
- Obtained "National High-Tech Enterprise" status which entitles us to favorable preferential tax treatment for the next three years (from 2011 to 2013).

"In 2010 we registered robust revenue growth, with increased sales across all product categories, while making meaningful progress in our research and development program," said Ms. Zhilin Li, China Pharma's Chairman and CEO. "Among key pipeline milestones achieved this year, we completed clinical trials of Candesartan, our new hypertension drug, and Rosuvastatin, our generic version of Crestor. We expect to launch these two products during 2011 and believe that they can generate higher than average gross margin compared to our current portfolio. In 2010 we also entered Phase II clinical trials of our

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\* Please see the section entitled "Use of Non-GAAP Financial Measures" and see the table entitled "Reconciliation of Non-GAAP Adjusted Net Income and Diluted EPS" appearing later in this release for a reconciliation of these non-GAAP measures to GAAP Income and EPS.



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novel cephalosporin-based combination antibiotic. Commercializing exciting new drugs like this, along with first-to-market generic medicines, is an important part of our strategy to enhance China Pharma's growth and profitability."

### Full Year Results

Revenues for the year ended December 31, 2010 were \$74.4 million, up 21% from revenues of \$61.7 million for the year ended December 31, 2009, reflecting higher sales across all of the Company's product categories.

The "Digestive Diseases" product group was the Company's fastest growing revenue category in 2010, with sales increasing 96% to \$9.3 million from \$4.8 million in 2009. The strong performance of the Digestive Diseases product group primarily reflects robust incremental revenue from Omeprazole, the Company's generic gastroesophageal reflux disease drug, and Tiopronin, a drug prescribed for treatment of acute Hepatitis B and drug-induced liver damage. Sales from the Company's second fastest revenue category in 2010, "Other Products", grew 31% to \$14.1 million from \$10.7 million in 2009. The year-over-year increase of Other Products revenue mainly reflects reinvigorated sales of Vitamin B6 after its placement on the Chinese government's Essential Drug List ("EDL") in 2009. The "CNS Cerebral and Cardio Vascular" product group ("CNS") generated sales of \$23.9 million in 2010, representing an increase of 11% compared to sales of \$21.5 million in 2009. We expect the upcoming new CNS products (namely Candesartan and Rosuvastatin) will strongly support the profitability and boost sales in this category once launched. Sales of "Anti-Viro/Infection & Respiratory" products, the Company's largest revenue category during 2010, grew 10% to \$27.1 million from \$24.7 million in 2009.

Gross profit for the year ended December 31, 2010 was \$30.3 million, up 18% from gross profit of \$25.7 million in 2009. Gross margin was 40.7%, compared to 41.6% for the full year of 2009, reflecting a higher mix of sales from lower-margin products, including those listed on the EDL.

Selling, general and administrative expenses in 2010 were \$5.6 million, or 7.5% of sales, compared to \$4.8 million, or 7.9% of sales, in 2009. For the year ended December 31, 2010, the Company's bad debt expense was \$0.5 million, compared to a bad debt benefit of \$1.8 million in 2009. Management revised bad debt allowance estimates in the third quarter of 2009, which resulted in a one-time benefit of \$2.8 million.

Operating income was \$24.7 million in 2010, up 9% from \$22.6 million in 2009.

For the year ended December 31, 2010, the Company paid income tax at a rate of approximately 11%. Income tax expense for the year ended December 31, 2010 was \$2.7 million, compared to \$2.3 million for the year ended December 31, 2009. The Company obtained "National High-Tech Enterprise" status from the PRC government in the fourth quarter of 2010. With this designation, the Company is entitled to a preferential tax rate of 15% for the next three years (2011 to 2013), which is notably lower than the statutory income tax rate of 25%.

Net income for the year 2010 was \$23.4 million, or \$0.54 per basic and diluted share, compared to \$18.0 million, or \$0.43 per basic and diluted share in 2009. Excluding the effect of the changes in derivative



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warrant liability and the one-time adjustment for bad debt allowance, net income would have risen by 23% to \$21.8 million in 2010 from \$17.7 million in 2009<sup>\*</sup>

### Financial Condition

As of December 31, 2010, the Company had cash and cash equivalents of \$3.7 million compared to \$3.6 million as of December 31, 2009. Year-over-year, working capital increased to \$79 million in 2010 from \$61 million in 2009 and the current ratio rose to 7.1 times from 6.8 times.

Accounts receivable balance rose to \$61.9 million in 2010 from \$51.2 million at the end of 2009. The Company's management team continues to be sharply focused on improving accounts receivable collection and expects to make further progress in the quarters to come.

For the year ended December 31, 2010, cash flow from operating activities was \$7.8 million, as compared to \$10.7 million in 2009. Most of this decline was due to higher working capital usage from higher advances to suppliers and inventory levels in 2010 compared to 2009. The Company believed the current market for raw materials was fairly tight and used the opportunity in late 2010 to stock up its warehouses.

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

### Pipeline Update

As of December 31, 2010, China Pharma had nine pipeline drugs in different stages of active development. The development of three of such products is highlighted below:

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

### Conference Call

The Company will hold a conference call at 8:30 am EST on March 3, 2011 to discuss full year 2010 results. Listeners may access the call by dialing 1-800-265-0241, or 1-617-847-8704 for international

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<sup>\*</sup> Please see the section entitled "Use of Non GAAP Financial Measures" and the table entitled "Reconciliation of Non-GAAP Adjusted Net Income and Diluted EPS" appearing later in this release for a reconciliation of these non-GAAP measures to GAAP Income and EPS.



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callers; access code: 49845306. A webcast will also be available through the Company's website at <http://www.chinapharmaholdings.com>. A replay of the call will be accessible through March 10, 2011 by dialing 1-888-286-8010, or 1-617-801-6888 for international callers; access code: 57630593.

### **Use of Non-GAAP Financial Measures**

GAAP results for the year ended December 31, 2010 and 2009 include non-recurring benefit from change of bad debt estimates and gains and losses from changes in derivative warrant liability. To supplement its consolidated financial statements presented on a GAAP basis, the Company has provided non-GAAP adjusted financial information, including adjusted net income and adjusted diluted earnings per share, that excludes the impact of the change in its bad debt estimates and the changes in derivative warrant liability. The Company's management believes that this adjusted measure provides investors with a better understanding of how the results relate to the Company's historical performance. A reconciliation of adjustment to GAAP results appears in the tables accompanying this press release. This additional adjusted information is not meant to be considered in isolation or as a substitute for GAAP financials. The adjusted financial information that the Company provides also may differ from the adjusted information provided by other companies.

### **About China Pharma Holdings, Inc.**

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

### **Safe Harbor Statement**

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

- FINANCIAL TABLES FOLLOW -



**China Pharma Holdings, Inc.**

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**Reconciliation of Non-GAAP Adjusted Net Income and Diluted EPS**  
**(Unaudited, \$ in thousand except share and per share data)**

For the Year Ended December 31,

	2010		2009	
	Net income	EPS	Net income	EPS
Adjusted net income, excluding approximate after-tax impact of derivative gain(loss) and one-time bad debt estimate change	\$ 21,825	\$ 0.50	\$ 17,676	\$ 0.42
Add: Derivate Gain (Loss) (a)	1,589	0.04	(2,260)	(0.05)
Adjusted net income, excluding approximate after-tax impact of derivative gain (loss) (Non-GAAP)	23,414	0.54	15,416	0.36
Approximate after-tax impact of one-time bad debt estimate change (b)	-	-	2,558	0.06
Net income as reported (GAAP)	\$ 23,414	\$ 0.54	\$ 17,974	\$ 0.43

(a) Represents the approximate amount that net income or EPS of the corresponding periods would have decreased by if derivative reclassification had not been made

(b) Represents the approximate amount that net income or EPS of the corresponding periods would have decreased by if bad debt estimate had been changed prior to the beginning of 2009.



## China Pharma Holdings, Inc.

### CHINA PHARMA HOLDINGS, INC. CONSOLIDATED BALANCE SHEETS

	December 31,	
	2010	2009
		(As Adjusted - Note 1)
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,692,086	\$ 3,634,753
Trade accounts receivable, less allowance for doubtful accounts of \$3,317,017 and \$2,718,358, respectively	61,947,737	51,238,339
Other receivables, less allowance for doubtful accounts of \$15,669 and \$3,556, respectively	65,019	78,525
Advances to suppliers	5,311,896	1,798,446
Inventory	20,388,935	14,233,073
Deferred tax assets	528,684	319,820
<b>Total Current Assets</b>	<b>91,934,357</b>	<b>71,302,956</b>
<b>Advances for purchases of property and equipment and intangible assets</b>	<b>4,395,331</b>	<b>3,599,949</b>
<b>Property and equipment</b> , net of accumulated depreciation of \$2,695,840 and \$2,020,462, respectively	6,372,487	6,705,873
<b>Intangible assets</b> , net of accumulated amortization of \$2,342,081 and \$1,359,048, respectively	29,048,766	19,332,284
<b>TOTAL ASSETS</b>	<b>\$ 131,750,941</b>	<b>\$ 100,941,062</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Trade accounts payable	\$ 4,937,781	\$ 3,957,923
Accrued expenses	98,206	47,435
Accrued taxes payable	2,386,019	1,528,691
Other payables	92,077	58,191
Advances from customers	1,208,988	1,037,693
Other payables - related parties	303,644	75,741
Short-term notes payable	3,781,119	3,802,726
<b>Total Current Liabilities</b>	<b>12,807,834</b>	<b>10,508,400</b>
<b>Long-term deferred tax liability</b>	71,673	-
<b>Long-term research and development commitments</b>	-	36,565
<b>Derivative warrant liability</b>	934,260	2,523,148
<b>Total Liabilities</b>	<b>13,813,767</b>	<b>13,068,113</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; 95,000,000 shares authorized; 43,404,557 shares and 42,308,350 shares outstanding, respectively	43,405	42,308
Additional paid-in capital	23,252,476	20,325,157
Retained earnings	85,017,024	61,602,677
Accumulated other comprehensive income	9,624,269	5,902,807
<b>Total Stockholders' Equity</b>	<b>117,937,174</b>	<b>87,872,949</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 131,750,941</b>	<b>\$ 100,941,062</b>



## China Pharma Holdings, Inc.

### CHINA PHARMA HOLDINGS, INC. CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the Years Ended	
	December 31,	
	2010	2009
		(As Adjusted - Note 1)
Revenue	\$ 74,388,180	\$ 61,696,620
Cost of revenue	44,105,447	36,046,259
Gross profit	30,282,733	25,650,361
Operating expenses:		
Selling expenses	2,542,826	2,705,550
General and administrative expenses	3,039,450	2,147,081
Bad debt expense (benefit)	505,224	(1,816,785)
Total operating expenses	6,087,500	3,035,846
Government subsidy income	469,509	-
Income from operations	24,664,742	22,614,515
Other income (expense):		
Interest income	15,413	30,695
Interest expense	(168,258)	(154,182)
Other income	-	3,540
Derivative gain (loss)	1,588,888	(2,259,571)
Net other income (expense)	1,436,043	(2,379,518)
Income before income taxes	26,100,785	20,234,997
Income tax expense	(2,686,438)	(2,261,519)
<b>Net income</b>	23,414,347	17,973,478
Other comprehensive income - foreign currency translation adjustment	3,721,462	183,189
<b>Comprehensive income</b>	<b>\$ 27,135,809</b>	<b>\$ 18,156,667</b>
<b>Earnings per Share:</b>		
Basic	\$ 0.54	\$ 0.43
Diluted	\$ 0.54	\$ 0.43



## China Pharma Holdings, Inc.

### CHINA PHARMA HOLDINGS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31,	
	<u>2010</u>	<u>2009</u>
		(As Adjusted - Note 1)
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 23,414,347	\$ 17,973,478
Depreciation and amortization	1,505,195	1,368,888
Stock based compensation	345,416	41,804
Derivative loss (gain)	(1,588,888)	2,259,571
Bad debt expense (benefit)	505,224	(1,816,785)
Deferred income tax provision (benefit)	(123,177)	142,846
Changes in assets and liabilities:		
Trade accounts and other receivables	(9,231,358)	(13,229,991)
Advances to suppliers	(3,367,119)	1,240,118
Inventory	(5,530,989)	(1,060,083)
Trade accounts payable	895,001	3,044,387
Accrued expenses and other liabilities	176,452	349,106
Accrued taxes payable	785,383	355,587
<b>Net Cash Provided by Operating Activities</b>	<u>7,785,487</u>	<u>10,668,926</u>
<b>Cash Flows from Investing Activities:</b>		
Advances for purchases of property and equipment and intangible assets	(1,163,873)	(3,063,066)
Purchase of property and equipment	(63,852)	(143,082)
Purchase of intangible assets	(9,290,656)	(12,154,561)
<b>Net Cash Used in Investing Activities</b>	<u>(10,518,381)</u>	<u>(15,360,709)</u>
<b>Cash Flows from Financing Activity:</b>		
Proceeds from issuance of notes payable	3,687,996	3,800,681
Payments of notes payable	(3,835,515)	(2,485,060)
Borrowing from a related party	227,903	-
Proceeds from exercise of warrants	2,583,000	70,001
<b>Net Cash Provided by Financing Activity</b>	<u>2,663,384</u>	<u>1,385,622</u>
<b>Effect of Exchange Rate Changes on Cash</b>	<u>126,843</u>	<u>13,765</u>
<b>Net Increase (Decrease) in Cash</b>	57,333	(3,292,396)
Cash and Cash Equivalents at Beginning of Period	3,634,753	6,927,149
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ 3,692,086</u>	<u>\$ 3,634,753</u>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	\$ 168,258	\$ 154,182
Cash paid for income taxes	2,839,548	1,773,795
<b>Supplemental Noncash Investing and Financing Activities:</b>		
Accounts payable for purchases of property and equipment	<u>\$ 100,160</u>	<u>\$ 139,903</u>