



China Pharma Holdings, Inc.

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

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

Third Quarter 2011 Highlights

- Revenue increased 12% to \$21.0 million from \$18.7 million in the Third quarter of 2010; nine month revenue increased 16% to \$58.7 million from \$50.4 million in the same period of 2010

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

Third Quarter 2011 Results

Revenues for the quarter ended September 30, 2011 were \$21.0 million, up 12% from revenues of \$18.7 million for the quarter ended September 30, 2010. Sales growth in the third quarter were led by the Anti-Viro Infection & Respiratory and also the Digestive categories.

Rising 38% to \$8.2 million from \$6 million in the same period a year ago, sales in the Anti-Viro Infection & Respiratory category led sales growth among our major categories. Performance in this category was impacted by outstanding sales growth of Cefaclor Dispersible Tablets and also Roxithromycin. Both of these products are front-line antibiotics in hospitals, and have been chosen by many provinces to add into their provincial Essential Drug List (EDL). Our Cefaclor Dispersible Tablets are typical example of our differentiation strategy, which is especially popular in children and patients with swallowing issues.

Sales of our "Digestive" category grew by of 37% to \$3.2 million from \$2.4 million in the quarter a year ago. The main contributor to this growth is Tiopronin, a drug prescribed for treatments of acute Hepatitis B and drug-induced liver damage. For the first time, quarterly sales of our Digestive category overtook sales of the "Others" category, powered by the combined performance of Tiopronin and Omeprazole.

Sales of CNS Cerebral & Cardio Vascular products also experienced continued growth, with revenues in this category increasing to \$7.2 million from \$5.9 million, or an increase of 22% on a year over year basis.

Sales of our "Other" category were \$2.3 compared to \$4.5 million in the three months period ended September 2010; this was a decrease of 48%. A couple of products from our "Other" category, saw sales declines compared to the same quarter one year ago when these products had a surge in sales partly due to the implementation of the EDL.



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Gross profit for the three months ended September 30, 2011 was \$7.51 million, which was approximately 1% lower compared to \$7.63 million in the third quarter of 2010. Our gross margin for the third quarter of 2011 was 35.8%, compared to 40.8% in the corresponding quarter of 2010. We are seeing pricing pressure on many of our products, particularly antibiotics, although the pressure is not uniform across product lines. Pricing pressure has become more evident over the past few quarters as the effect of the Chinese government healthcare reform is being felt across all pharmaceutical products, especially in EDL related products. We expect current challenging pricing environment to persist for some time.

In terms of our gross margins by major categories, CNS Cerebral & Cardio Vascular category margin was 43.4%, which was higher compared to the previous quarter of 42.9%, but lower compared to the third quarter 2010 gross margin of 44.5%. Gross margin for our Anti-Viro/Infection & Respiratory category decreased to 23.7% from 26.4% one quarter ago and 28.3% in the period one year ago. Gross margin for our Digestive Diseases category edged down to 44.7% from last quarter's 45.7% and prior year third quarter's 52.5%. Gross margin for our Other category was flat compared to 42.5% of last quarter but lower than the 46.5% a year ago.

Selling, general and administrative expenses in the third quarter of 2011 were \$3.7 million, compared to \$1.3 million, in the same period of 2010. The higher figure for the current period is mainly due to higher general and administrative expenses which included the effect of higher intangible asset amortization expenses. During the quarter we reassessed our method of amortizing intangible assets and started to amortize them from the dates acquired rather than the date when they start to generate revenue.

For the quarter ended September 30, 2011, the Company's bad debt benefit was \$76,187, compared to bad debt expense of \$107,786 in the same period of 2010.

Operating income was \$3.9 million in the third quarter of 2011, down 37% from \$6.2 million in the third quarter of 2010. Operating income was lower mainly due to higher intangible assets amortization cost and also lower gross margins, as well as higher operating expenses.

For the quarter ended September 30, 2011, the Company paid income tax at a rate of approximately 15%. Income tax expense for the third quarter of 2011 was \$0.54 million, compared to \$0.67 million for the same period last year. The Company obtained "National High-Tech Enterprise" status from the PRC government in the fourth quarter of 2010. With this designation, the Company is entitled to a preferential tax rate of 15% for the next three years (2011 to 2013), which is notably lower than the statutory income tax rate of 25%.

Net income for the third quarter of 2011 was \$3.3 million, or \$0.08 per basic and diluted share, compared to \$5.9 million, or \$0.14 per basic and diluted share, in the third quarter of 2010. The decrease of net income from the period a year ago is mainly due to higher intangible asset amortization expenses and also lower overall gross margins. In addition, the net income figure for the third quarter 2010 contained a derivative gain of \$0.43 million while there is no derivative profit or loss in the three months ended September 30, 2011.

Nine Months Results

Revenues for the nine months ended September 30, 2011 were \$58.7 million, up 16% from revenues of \$50.4 million for the nine months ended September 30, 2010. Gross profit for the nine months ended September 30, 2011 was \$21.7 million, up 4% from gross profit of \$20.8 million for the corresponding period of 2010. Gross margin was 37.0%, compared to 41.3% for the first nine months of 2010.

Selling and general administration expenses was \$7.0 million, or 12% of revenue, up from \$4.1 million, or 8% of revenue in the year ago period. During the third quarter 2011 we reassessed our method of amortizing intangible assets and started to amortize them from the dates acquired rather than the date they start to generate revenue.



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Net income was \$13.5 million, or \$0.31 per basic and diluted share, compared to \$16.9 million, or \$0.39 per basic and diluted share, for the same period a year ago. The net income figure in the 2011 period contains higher intangible amortization expenses. In addition, 2011 net income contains \$0.93 million of derivative gains compared to \$1.80 million of derivative gains included for 2010 net income figures.

Financial Condition

As of September 30, 2011, the Company had cash and cash equivalents of \$4.9 million compared to \$3.7 million as of December 31, 2010.

Working capital increased to \$93.0 million at September 30, 2011 from \$79 million at December 31, 2010. The current ratio rose to 8.0 times at September 30, 2011 from 7.2 times at December 31, 2010.

Accounts receivable balance rose to \$69 million at the end of the third quarter of 2011 from \$62 million at the end 2010. The Company's management team continues to be sharply focused on improving accounts receivable collection and expects to make further progress in the quarters to come.

For the nine months ended September 20, 2011, cash flow from operating activities was \$5.4 million, as compared to \$6.1 million in the period a year ago.

Pipeline Update

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

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

Conference Call

The Company will hold a conference call at 8:30 am ET on November 11, 2011 to discuss third quarter 2011 results. Listeners may access the call by dialing 1-866-519-4004 or 65-672-393-81 for international callers, Conference ID # 26222529. A webcast will also be available through CPHI's website at <http://www.chinapharmaholdings.com>. A replay of the call will be accessible through November 18, 2011 by dialing 1-866-214-5335 or 61-282-355-000 for international callers, Conference ID # 26222529.

About China Pharma Holdings, Inc.



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 -

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

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,852,740	\$ 3,692,086
Banker's acceptances	132,170	-
Trade accounts receivable, less allowance for doubtful accounts of \$3,221,726 and \$3,317,017, respectively	68,715,909	61,947,737
Other receivables, less allowance for doubtful accounts of \$39,070 and \$15,669, respectively	64,037	65,019
Advances to suppliers	5,265,650	5,311,896
Inventory	26,621,902	20,388,935
Deferred tax assets	518,906	528,684
Total Current Assets	<u>106,171,314</u>	<u>91,934,357</u>
Advances for purchases of property and equipment and intangible assets	6,133,655	4,395,331
Property and equipment , net of accumulated depreciation of \$3,436,182 and \$2,695,840, respectively	6,209,618	6,372,487
Intangible assets , net of accumulated amortization of \$4,974,907 and \$2,342,081, respectively	30,330,505	29,048,766
Long-term deferred tax assets	274,157	-
TOTAL ASSETS	<u>\$ 149,119,249</u>	<u>\$ 131,750,941</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 3,121,805	\$ 4,937,781
Accrued expenses	136,684	98,206
Accrued taxes payable	3,295,015	2,386,019
Other payables	413,696	92,077
Advances from customers	1,667,848	1,208,988
Other payables - related parties	651,563	303,644
Short-term notes payable	3,913,263	3,781,119
Total Current Liabilities	<u>13,199,874</u>	<u>12,807,834</u>
Long-term deferred tax liability	-	71,673
Derivative warrant liability	-	934,260
Total Liabilities	<u>13,199,874</u>	<u>13,813,767</u>
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.001 par value; 95,000,000 shares authorized; 43,529,557 shares and 43,404,557 shares outstanding, respectively	43,530	43,405
Additional paid-in capital	23,391,425	23,252,476
Retained earnings	98,481,501	85,017,024
Accumulated other comprehensive income	14,002,919	9,624,269
Total Stockholders' Equity	<u>135,919,375</u>	<u>117,937,174</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 149,119,249</u>	<u>\$ 131,750,941</u>

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

	(Unaudited)			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	\$ 20,987,725	\$ 18,680,390	\$ 58,708,134	\$ 50,414,254
Cost of revenue	13,472,804	11,055,254	37,041,618	29,610,973
Gross profit	7,514,921	7,625,136	21,666,516	20,803,281
Operating expenses:				
Selling expenses	1,006,815	449,295	2,410,516	1,653,763
General and administrative expenses	2,687,376	873,157	4,591,270	2,420,412
Bad debt expense (benefit)	(76,187)	107,186	(185,463)	215,707
Total operating expenses	3,618,004	1,429,638	6,816,323	4,289,882
Government subsidy income	968	-	146,415	465,663
Income from operations	3,897,885	6,195,498	14,996,608	16,979,062
Other income (expense):				
Interest income	1,241	1,147	5,656	13,305
Interest expense	(62,438)	(37,667)	(184,874)	(139,788)
Derivative gain	-	429,687	934,260	1,795,196
Net other income	(61,197)	393,167	755,042	1,668,713
Income before income taxes	3,836,688	6,588,665	15,751,650	18,647,775
Income tax expense	(544,903)	(674,051)	▲ (2,287,173)	(1,796,749)
Net income	3,291,785	5,914,614	13,464,477	16,851,026
Other comprehensive income - foreign currency translation adjustment	1,530,661	1,774,575	4,378,650	2,192,273
Comprehensive income	\$ 4,822,446	\$ 7,689,189	\$ 17,843,127	\$ 19,043,299
Earnings per Share:				
Basic	\$ 0.08	\$ 0.14	\$ 0.31	\$ 0.39
Diluted	\$ 0.08	\$ 0.14	\$ 0.31	\$ 0.39

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

	For the Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 13,464,477	\$ 16,851,026
Depreciation and amortization	3,147,930	1,271,251
Stock based compensation	139,074	281,587
Derivative gain	(934,260)	(1,795,196)
Changes in assets and liabilities:		
Trade accounts receivable	(4,532,320)	(4,394,468)
Other receivables	3,204	(69,154)
Advances to suppliers	228,319	(1,495,898)
Inventory	(5,435,415)	(5,239,859)
Deferred tax assets	(315,153)	(193,953)
Trade accounts payable	(1,933,820)	277,275
Accrued expenses	309,977	(30,168)
Accrued taxes payable	812,897	609,646
Other payables	45,162	15,972
Advances from customers	410,195	(27,982)
Net Cash Provided by Operating Activities	5,410,267	6,060,079
Cash Flows from Investing Activities:		
Net investment in banker's acceptances	(130,135)	-
Advances for purchases of property and equipment and intangible assets	(1,560,317)	(1,615,399)
Purchase of property and equipment	(280,645)	(219,904)
Purchase of intangible assets	(2,774,173)	(5,311,961)
Net Cash Used in Investing Activities	(4,745,270)	(7,147,264)
Cash Flows from Financing Activities:		
Proceeds from related party loan	347,919	227,903
Proceeds from issuance of notes payable	-	2,934,100
Payment of notes payable	-	(3,814,330)
Proceeds from exercise of warrants	-	2,583,000
Net Cash Provided by Financing Activities	347,919	1,930,673
Effect of Exchange Rate Changes on Cash	147,738	83,191
Net Increase in Cash and Cash Equivalents	1,160,654	926,679
Cash and Cash Equivalents at Beginning of Period	3,692,086	3,634,753
Cash and Cash Equivalents at End of Period	\$ 4,852,740	\$ 4,561,432
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 179,467	\$ 139,494
Cash paid for income taxes	1,554,339	1,889,810