



**China Pharma Holdings, Inc.**

## **China Pharma Holdings, Inc. Reports Second Quarter 2012 Financial Results**

HAIKOU CITY, China, August 15, 2012 - China Pharma Holdings, Inc. (NYSE AMEX: CPHI) ("China Pharma" or the "Company"), a specialty pharmaceuticals company in China, today announced financial results for the quarter ended June 30, 2012.

### **Second Quarter 2012 Highlights**

- Revenue was \$14.6 million for the second quarter of 2012, representing a decrease of 26% compared to \$19.6 million for the same period in 2011. For the first six months of 2012, revenue was \$30.7 million, representing a decrease of 19% from \$37.7 million for the same period in 2011.
- Gross profit was \$4.1 million for the second quarter of 2012, representing a decrease of 43% compared to \$7.3 million for the same period in 2011. For the first six months of 2012, gross profit was \$9.4 million, representing a decrease of 33% from \$14.2 million for the same period in 2011.
- Net income was \$1.8 million, or \$0.04 per basic and diluted share for the second quarter of 2012, representing a decrease of 65% compared to \$5.1 million for the prior year period, or \$0.12 per basic and diluted share. For the first six months of 2012, net income was \$4.6 million, representing a decrease of 55% from \$10.2 million for the same period in 2011.

"This year we expect to see many new Healthcare Reform policy implementations, most of which are centered around the theme of price control. With respect to the second quarter, new government reform policies as well as the general uncertain atmosphere of the industry continued negatively impacting our short-term sales volume. Besides that, we are also experiencing pricing pressure on most of our products." Ms. Zhilin Li, China Pharma's Chairman and CEO continued, "In addition, like the other Chinese pharmaceutical manufacturers, our Company is required to upgrade our facility to the new GMP standards. This round of upgrading is a challenge for all players, and also means survival of the fittest. The new GMP standards significantly raised the GMP standards in China. Existing drug manufacturers like us, depending on the risks of the products we manufacture, were given a grace period of up to three to five years to comply with the GMP standards. We are under the pressure of man power, material resources and timing to complete this upgrading."

### **Second Quarter of FY2012 Results of Operations**

Revenues for the quarter ended June 30, 2012 were \$14.6 million, a decrease of \$5.0 million, or 26% from \$19.6 million for the quarter ended June 30, 2011. The revenues decreased mainly because we reduced our sales-on-credit in order to improve the collection of accounts receivables. In addition, there have been disruptions from the implementation of the ever-changing Healthcare Reform policies. As a result, sales decreased in our four major product categories.



## China Pharma Holdings, Inc.

Most of the decline in our total revenue was from our CNS Cerebral & Cardio Vascular category where sales fell by 32% to \$4.1 million from \$6 million for the same period last year. Sales in the Anti-Viro Infection & Respiratory category fell by \$1.4 million to \$6.7 million from \$8.1 million in the prior year period. The "Digestive" category sales revenues edged lower by \$0.9 million to \$1.7 million from \$2.6 million in the same period prior year. Sales of "Other" category fell by \$0.8 million, or 27.1% to \$2.1 million from \$2.9 million in the second quarter of 2011.

Gross profit for the three months ended June 30, 2012 was \$4.14 million, which was approximately 43% lower compared to \$7.28 million for the quarter ended June 30, 2011. Our gross margin for the second quarter of 2012 was 28%, compared to 37% in the corresponding quarter of 2011. We are seeing pricing pressure on many of our products, although the pressure is not uniform across product lines. The impact of the implementation of the Healthcare Reform has affected pricing of our products throughout the distribution chain. These changes are causing unpredictable volatility in sales because pricing changes are not uniform across all geographical areas. As margins decline due to pricing pressures, every link of the distribution chain is being squeezed and becoming less active. We expect current challenging pricing environment to persist for some time.

In terms of our gross margins by major categories, gross margin for our Anti-Viro/Infection & Respiratory category decreased to 26.1% from 26.2% in the period one year ago. CNS Cerebral & Cardio Vascular category margin was 29.8%, decreased compared to the second quarter 2011 gross margin of 42.9%. Gross margin for our Digestive Diseases category decreased to 28.3% from 45.7%, in the period one year ago. Gross margin for our "Other" category fell to 33.7% from 42.5% a year ago.

Selling, general and administrative expenses in the second quarter of 2012 were \$1.70 million, compared to \$1.79 million, in the same period of 2011. The decrease in general and administrative expenses along with the revenue did not completely offset the increasing selling expenses mainly due to higher labor cost and increased spending on promotional activities for our branded generics.

Operating income was \$2.2 million in the second quarter of 2012, down 62% from \$5.8 million in the second quarter of 2011. The decrease in operating income was mainly due to lower gross revenue, higher operating expenses in the current period compared to the corresponding quarter one year ago; and the one-time government subsidy income we got in the second quarter of 2011.

For the quarter ended June 30, 2012, the Company paid income tax at a rate of approximately 15%. Income tax expense for the second quarter of 2012 was \$0.37 million, compared to \$0.89 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 three years from 2011 to 2013, which is notably lower than the statutory income tax rate of 25%.

Net income for the second quarter of 2012 was \$1.8 million, or \$0.04 per basic and diluted share, compared to \$5.1 million, or \$0.12 per basic and diluted share, in the second quarter of 2011. The main reasons for the decrease in our net income are the decrease in sales revenue, falling gross margins and higher operating expenses. Our net income for the second quarter of 2011 also included a positive effect of \$0.26 million derivative gains.

### Six Months Results



## China Pharma Holdings, Inc.

Revenues for the six months ended June 30, 2012 were \$30.7 million, down 19% from revenues of \$37.7 million for the six months ended June 30, 2011. Gross profit for the six months ended June 30, 2012 was \$9.4 million, down 33% from gross profit of \$14.2 million for the corresponding period of 2011. Gross margin was 30.8%, compared to 37.5% for the first six months of 2011. Operating income was \$5.6 million, down 49% from \$11.1 million for the first six months of 2011. Net income was \$4.6 million, or \$0.10 per basic and diluted share, compared to \$10.2 million, or \$0.23 per basic and diluted share, for the same period a year ago.

### Financial Condition

As of June 30, 2012, the Company had cash and cash equivalents of \$4.9 million compared to \$4.1 million as of December 31, 2011.

Working capital increased to \$101.6 million at June 30, 2012 from \$96.8 million at December 31, 2011. The current ratio decreased to 7.1 times at June 30, 2012 from 8.0 times at December 31, 2011.

Accounts receivable balance rose to \$71.4 million at the end of the second quarter of 2012 from \$69.7 million at the end of 2011; which also represent a decrease of \$2.2 million compared to \$73.6 million as of March 31, 2012. The Company's management team continues to be sharply focused on improving accounts receivable collection and expects to make progress in the quarters to come.

For the six months ended June 30, 2012, cash flow from operating activities was \$1.9 million, as compared to \$ 3.6 million as of June 30, 2012; which also represent an improvement from \$0.1 million as of March 31, 2012.

### Conference Call

The Company will hold a conference call at 8:30 am ET on August 15, 2012 to discuss second quarter of year 2012 results. Listeners may access the call by dialing 1-866-519-4004 or 65-672-393-81 for international callers, Conference ID # 16312392. A webcast will also be available through CPHI's website at <http://www.chinapharmaholdings.com>. A replay of the call will be accessible through August 23, 2012 by dialing 1-866-214-5335 or 61-282-355-000 for international callers, Conference ID # 16312392.

### 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>. The Company routinely posts updated information on its website.



**China Pharma Holdings, Inc.**

**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.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,871,551	\$ 4,050,854
Banker's acceptances	460,276	83,512
Trade accounts receivable, less allowance for doubtful accounts of \$4,107,021 and \$3,536,405, respectively	71,360,940	69,695,556
Other receivables, less allowance for doubtful accounts of \$47,175 and \$38,921, respectively	81,958	55,039
Advances to suppliers	4,346,246	5,778,841
Inventory	36,399,386	30,378,658
Deferred tax assets	653,266	566,226
<b>Total Current Assets</b>	<b>118,173,623</b>	<b>110,608,686</b>
<b>Advances for purchases of property and equipment</b>	171,516	170,323
<b>Advances for purchases of intangible assets</b>	37,719,641	36,194,494
<b>Property and equipment, net of accumulated depreciation of \$3,839,492 and \$3,391,124, respectively</b>	6,022,326	6,334,817
<b>Intangible assets, net of accumulated amortization of \$3,368,430 and \$3,041,804, respectively</b>	2,798,916	3,082,671
<b>TOTAL ASSETS</b>	<b>\$ 164,886,022</b>	<b>\$ 156,390,991</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Trade accounts payable	\$ 4,904,523	\$ 3,112,385
Accrued expenses	161,761	184,017
Accrued taxes payable	3,265,640	3,082,353
Other payables	922,849	784,697
Advances from customers	2,196,244	1,784,474
Other payables - related parties	1,154,567	899,314
Short-term notes payable	3,959,267	3,931,745
<b>Total Current Liabilities</b>	<b>16,564,851</b>	<b>13,778,985</b>
<b>Long-term deferred tax liability</b>	157,192	128,909
<b>Total Liabilities</b>	<b>16,722,043</b>	<b>13,907,894</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; 43,579,557 shares and 43,529,557 shares outstanding, respectively	43,580	43,530
Additional paid-in capital	23,590,204	23,448,534
Retained earnings	108,852,943	104,286,666
Accumulated other comprehensive income	15,677,252	14,704,367
<b>Total Stockholders' Equity</b>	<b>148,163,979</b>	<b>142,483,097</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 164,886,022</b>	<b>\$ 156,390,991</b>

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

(Unaudited)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2012	2011	2012	2011
Revenue	\$ 14,598,403	\$ 19,600,852	\$ 30,685,134	\$ 37,720,409
Cost of revenue	10,460,047	12,318,868	21,242,431	23,568,814
Gross profit	4,138,356	7,281,984	9,442,703	14,151,595
Operating expenses:				
Selling expenses	881,945	799,220	1,776,005	1,403,701
General and administrative expenses	812,741	986,949	1,489,143	1,903,894
Bad debt expense (benefit)	233,139	(118,704)	553,237	(109,276)
Total operating expenses	1,927,825	1,667,465	3,818,385	3,198,319
Government subsidy income	-	145,447	-	145,447
Income from operations	2,210,531	5,759,966	5,624,318	11,098,723
Other income (expense):				
Interest income	791	2,454	1,481	4,415
Interest expense	(78,472)	(61,222)	(156,009)	(122,436)
Derivative gain	-	256,762	-	934,260
Net other income (expense)	(77,681)	197,994	(154,528)	816,239
Income before income taxes	2,132,850	5,957,960	5,469,790	11,914,962
Income tax expense	(372,932)	(888,890)	(903,513)	(1,742,270)
<b>Net income</b>	1,759,918	5,069,070	4,566,277	10,172,692
Other comprehensive income - foreign currency translation adjustment	106,311	1,709,951	972,885	2,847,989
<b>Comprehensive income</b>	<b>\$ 1,866,229</b>	<b>\$ 6,779,021</b>	<b>\$ 5,539,162</b>	<b>\$ 13,020,681</b>
<b>Earnings per Share:</b>				
Basic	\$ 0.04	\$ 0.12	\$ 0.10	\$ 0.23
Diluted	\$ 0.04	\$ 0.12	\$ 0.10	\$ 0.23

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

	<b>For the Six Months</b>	
	<b>Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 4,566,277	\$ 10,172,692
Depreciation and amortization	729,167	890,895
Stock based compensation	141,721	81,965
Bad debt expense (benefit)	553,237	(109,276)
Deferred income taxes	(55,634)	16,391
Derivative gain	-	(934,260)
Changes in assets and liabilities:		
Trade accounts receivable	(3,756,396)	(2,632,631)
Other receivables	(26,505)	(15,559)
Advances to suppliers	1,873,778	110,882
Inventory	(4,552,918)	(3,086,326)
Trade accounts payable	1,768,420	(2,204,755)
Accrued expenses	46,311	266,666
Accrued taxes payable	161,533	905,113
Other payables	46,552	(8,947)
Advances from customers	398,842	154,239
<b>Net Cash Provided by Operating Activities</b>	<b>1,894,385</b>	<b>3,607,089</b>
<b>Cash Flows from Investing Activities:</b>		
Net investment in banker's acceptances	-	(234,921)
Advances for purchases of property and equipment and intangible assets	(1,270,399)	(2,434,004)
Purchase of property and equipment	(67,722)	(223,769)
<b>Net Cash Used in Investing Activities</b>	<b>(1,338,121)</b>	<b>(2,892,694)</b>
<b>Cash Flows from Financing Activity:</b>		
Proceeds from related party loan	293,004	187,919
<b>Net Cash Provided by Financing Activity</b>	<b>293,004</b>	<b>187,919</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>(28,571)</b>	<b>93,257</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>820,697</b>	<b>995,571</b>
Cash and Cash Equivalents at Beginning of Period	4,050,854	3,692,086
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 4,871,551</b>	<b>\$ 4,687,657</b>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	\$ 151,667	\$ 118,347
Cash paid for income taxes	588,661	617,544
<b>Supplemental Noncash Investing and Financing Activities:</b>		
Accounts payable for purchases of property and equipment	\$ 144,153	\$ 145,777
Accounts receivable collected with banker's acceptances	2,026,928	-
Advances to suppliers paid with banker's acceptances	402,338	-
Inventory purchased with banker's acceptances	1,248,820	-