

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

HAIKOU CITY, China, May 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 March 31, 2012.

### **First Quarter 2012 Highlights**

- Revenue was \$16.1 million, compared to \$18.1 million in the prior year period;
- Gross profit was \$5.3 million, compared to \$6.9 million in the prior year period;
- Operating income was \$3.4 million, compared to \$5.3 million in the prior year period;
- Net income was \$2.8 million, or \$0.06 per basic and diluted share, compared to \$5.3 million in the prior year period, or \$0.12 per basic and diluted share;

"This year we expect to see many new Healthcare Reform policy implementations, most of which are centered around the theme of price control. At the same time we are seeing cost of materials (such as raw chemical materials, APIs, packaging materials as well as logistic costs) rising fast. The Chinese pharmaceutical industry is therefore facing tremendous operating pressure due to falling top line and rising cost of goods sold." Ms. Zhilin Li, China Pharma's Chairman and CEO continued, "With respect to the first quarter, new government pricing policies as well as the general uncertain atmosphere of the industry negatively impacted our short-term results. But we expect gross margin and revenue to benefit from new product launches in the months and quarters ahead."

### **First Quarter of FY2012 Results of Operations**

Revenues for the quarter ended March 31, 2012 were \$16.1 million, a decrease of \$2.0 million, or 11% from \$18.1 million for the quarter ended March 31, 2011. Decline in our total revenue was due to the sales decrease in our four major product categories.

Most of the decline in our total revenue was from our "Other's" category where sales fell by 37% to \$2.0 million from \$3.1 million for the same period last year. Sales in the Anti-Viro Infection & Respiratory category fell by 4% to \$6.8 million from \$7.1 million in the prior year period. The "Digestive" category sales revenues edged lower by 2% to \$2.5 million from \$2.6 million in the



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same period prior year. Sales of CNS Cerebral & Cardio Vascular products fell by 11% to \$4.8 million from \$5.4 million in the first quarter of 2011.

Gross profit for the three months ended March 31, 2012 was \$5.30 million, which was approximately 23% lower compared to \$6.87 million for the quarter ended March 31, 2011. Our gross margin for the first quarter of 2012 was 33%, compared to 38% in the corresponding quarter of 2011. We are seeing pricing pressure on many of our products, particularly digestive drugs, although the pressure is not uniform across product lines. Pricing pressure has become more evident over the past few quarters as the Chinese government healthcare reform is having a stronger impact on all pharmaceutical products, especially the products listed on National Essential Drug List. 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 39.4%, lower compared to the first quarter 2011 gross margin of 45.3%. Gross margin for our Anti-Viro/Infection & Respiratory category decreased to 25.4% from 27.5% in the period one year ago. Gross margin for our Digestive Diseases category decreased to 35.7% from 48.4%, in the period one year ago. Gross margin for our Other category fell to 40.0% from 44.9% a year ago.

Selling, general and administrative expenses in the first quarter of 2012 were \$1.57 million, compared to \$1.52 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.

For the quarter ended March 31, 2012, the Company's bad debt expense was \$320,098, compared to \$9,248 in the same period of 2011. The increase was mainly due to the higher percentage of the older accounts receivables.

Operating income was \$3.4 million in the first quarter of 2012, down 36% from \$5.3 million in the first quarter of 2011. Operating income was lower mainly due to lower revenue and lower gross margins and higher operating expenses in the current period compared to the corresponding quarter one year ago.

For the quarter ended March 31, 2012, the Company paid income tax at a rate of approximately 15%. Income tax expense for the first quarter of 2012 was \$0.53 million, compared to \$0.85 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



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notably lower than the statutory income tax rate of 25%.

Net income for the first quarter of 2012 was \$2.8 million, or \$0.06 per basic and diluted share, compared to \$5.1 million, or \$0.12 per basic and diluted share, in the first quarter of 2011. The decrease of net income from the period a year ago is mainly due to the decrease in sales revenue, falling gross margins and higher operating expenses. Our net income for the first quarter of 2011 also included a positive effect of \$0.68 million of derivative gains.

### **Financial Condition**

As of March 31, 2012, the Company had cash and cash equivalents of \$3.3 million compared to \$4.1 million as of December 31, 2011.

Working capital increased to \$99.9 million at March 31, 2012 from \$96.8 million at December 31, 2011. The current ratio decreased to 6.8 times at March 31, 2012 from 8.0 times at December 31, 2011.

Accounts receivable balance rose to \$73.5 million at the end of the first quarter of 2012 from \$69.7 million at the end of 2011. 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 three months ended March 31, 2012, cash flow from operating activities was \$0.12 million, as compared to \$1.39 million in the period a year ago.

### **Pipeline Update**

As of March 31, 2012, China Pharma had various pipeline drugs in different stages of active development. Some of these are highlighted below:

- The Company originally submitted application for production approval of Candesartan, a front-line drug therapy developed for the treatment of hypertension, in 2010. The Company received request for additional procedures in the fourth quarter of 2011 and has since completed all newly requested procedures. We now expect SFDA to give us the final production approval by mid-year 2012.



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- The Company completed clinical trials of Rosuvastatin, a generic form of Crestor, and is in the process of production approval process.
- The Company completed Phase I clinical trials of its novel cephalosporin-based combination antibiotic in September 2010. We are currently conducting Phase II clinical trials for this drug.
- The Company is developing a medicine for the treatment of coronary heart disease. This product comes with a patented TCM formula and we are currently conducting Phase III clinical trials for this drug. We anticipate the completion of the clinical work for this product by year end 2012.

### **Conference Call**

The Company will hold a conference call at 8:30 am ET on May 15, 2012 to discuss first quarter 2012 results. Listeners may access the call by dialing 1-866-519-4004 or 65-672-393-81 for international callers, Conference ID # 78450563. A webcast will also be available through CPHI's website at <http://www.chinapharmaholdings.com>. A replay of the call will be accessible through May 22, 2012 by dialing 1-866-214-5335 or 61-282-355-000 for international callers, Conference ID # 78450563.

### **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 Helsen 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.

### **Safe Harbor Statement**

Certain statements in this press release constitute forward-looking statements for purposes of



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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**

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,319,806	\$ 4,050,854
Banker's acceptances	365,285	83,512
Trade accounts receivable, less allowance for doubtful accounts of \$3,876,469 and \$3,536,405, respectively	73,546,111	69,695,556
Other receivables, less allowance for doubtful accounts of \$41,106 and \$38,921, respectively	75,604	55,039
Advances to suppliers	4,871,928	5,778,841
Inventory	34,323,345	30,378,658
Deferred tax assets	617,753	566,226
<b>Total Current Assets</b>	<b>117,119,832</b>	<b>110,608,686</b>
<b>Advances for purchases of property and equipment</b>	171,402	170,323
<b>Advances for purchases of intangible assets</b>	37,212,570	36,194,494
<b>Property and equipment, net of accumulated depreciation of \$3,624,697 and \$3,391,124, respectively</b>	6,170,744	6,334,817
<b>Intangible assets, net of accumulated amortization of \$3,213,631 and \$3,041,804, respectively</b>	2,949,625	3,082,671
<b>TOTAL ASSETS</b>	<b>\$ 163,624,173</b>	<b>\$ 156,390,991</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Trade accounts payable	\$ 5,853,875	\$ 3,112,385
Accrued expenses	145,212	184,017
Accrued taxes payable	3,544,878	3,082,353
Other payables	890,698	784,697
Advances from customers	2,015,380	1,784,474
Other payables - related parties	861,563	899,314
Short-term notes payable	3,956,642	3,931,745
<b>Total Current Liabilities</b>	<b>17,268,248</b>	<b>13,778,985</b>
<b>Long-term deferred tax liability</b>	143,407	128,909
<b>Total Liabilities</b>	<b>17,411,655</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; 43,529,557 shares and 43,529,557 shares outstanding, respectivel	43,530	43,530
Additional paid-in capital	23,505,022	23,448,534
Retained earnings	107,093,025	104,286,666
Accumulated other comprehensive income	15,570,941	14,704,367
<b>Total Stockholders' Equity</b>	<b>146,212,518</b>	<b>142,483,097</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 163,624,173</b>	<b>\$ 156,390,991</b>

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

	<b>For the Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Revenue	\$ 16,086,731	\$ 18,119,557
Cost of revenue	10,782,384	11,249,946
Gross profit	<u>5,304,347</u>	<u>6,869,611</u>
Operating expenses:		
Selling expenses	894,060	604,481
General and administrative expenses	676,402	916,945
Bad debt expense	320,098	9,428
Total operating expenses	<u>1,890,560</u>	<u>1,530,854</u>
Income from operations	<u>3,413,787</u>	<u>5,338,757</u>
Other income (expense):		
Interest income	690	1,961
Interest expense	(77,537)	(61,214)
Derivative gain	-	677,498
Net other income (expense)	<u>(76,847)</u>	<u>618,245</u>
Income before income taxes	3,336,940	5,957,002
Income tax expense	<u>(530,581)</u>	<u>(853,380)</u>
<b>Net income</b>	<u>2,806,359</u>	<u>5,103,622</u>
Other comprehensive income - foreign currency translation adjustment	866,574	1,138,038
<b>Comprehensive income</b>	<u>\$ 3,672,933</u>	<u>\$ 6,241,660</u>
<b>Earnings per Share:</b>		
Basic	<u>\$ 0.06</u>	<u>\$ 0.12</u>
Diluted	<u>\$ 0.06</u>	<u>\$ 0.12</u>

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

	<b>For the Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 2,806,359	\$ 5,103,622
Depreciation and amortization	365,223	441,993
Stock based compensation	56,489	41,898
Bad debt expense	320,098	9,428
Deferred income taxes	(34,312)	(1,414)
Derivative gain	-	(677,498)
Changes in assets and liabilities:		
Trade accounts receivable	(5,154,644)	(1,464,957)
Other receivables	(20,247)	(72,955)
Advances to suppliers	944,949	794,570
Inventory	(2,619,634)	(2,525,349)
Trade accounts payable	2,725,945	(1,261,422)
Accrued expenses	11,517	194,444
Accrued taxes payable	443,684	184,552
Other payables	54,337	44,932
Advances from customers	219,942	574,632
<b>Net Cash Provided by Operating Activities</b>	<b>119,706</b>	<b>1,386,476</b>
<b>Cash Flows from Investing Activities:</b>		
Net investment in banker's acceptances	-	(467,902)
Advances for purchases of property and equipment and intangible assets	(790,092)	(848,378)
Purchase of property and equipment	(7,926)	(60,949)
<b>Net Cash Used in Investing Activities</b>	<b>(798,018)</b>	<b>(1,377,229)</b>
<b>Cash Flows from Financing Activity:</b>		
Proceeds from related party loan	-	67,919
<b>Net Cash Provided by Financing Activity</b>	<b>-</b>	<b>67,919</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>(52,736)</b>	<b>34,393</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(731,048)</b>	<b>111,559</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>\$ 3,319,806</b>	<b>\$ 3,803,645</b>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for interest	\$ 75,567	\$ 58,170
Cash paid for income taxes	274,587	385,546
<b>Supplemental Noncash Investing and Financing Activities:</b>		
Accounts payable for purchases of property and equipment	\$ 144,057	\$ 143,839
Accounts receivable collected with banker's acceptances	1,420,102	-
Inventory purchased with banker's acceptances	1,138,429	-