

China Pharma Holdings, Inc. Reports Third Quarter 2012 Financial Results

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

Third Quarter 2012 Highlights

- We received production approval for Candesartan from the SFDA in November 2012 and plan to start production in the first quarter of fiscal 2013. Candesartan is an angiotensin II receptor antagonist serving as a first-line treatment for hypertension.
- On October 30, 2012, we entered into a revolving line of credit with a bank in the amount of RMB30,000,000 (approximately \$4.75 million) .
- Revenue was \$12.2 million for the third quarter of 2012, representing a decrease of 42% compared to \$21.0 million for the same period in 2011. For the first nine months of 2012, revenue was \$42.9 million, representing a decrease of 27% from \$58.7 million for the same period in 2011.
- Gross profit was \$3.2 million for the third quarter of 2012, representing a decrease of 57% compared to \$7.5 million for the same period in 2011. For the first nine months of 2012, gross profit was \$12.7 million, representing a decrease of 41% from \$21.7 million for the same period in 2011.
- Net income was \$1.3 million, or \$0.03 per basic and diluted share for the third quarter of 2012, representing a decrease of 74% compared to \$5.0 million for the prior year period, or \$0.11 per basic and diluted share. For the first nine months of 2012, net income was \$5.9 million, representing a decrease of 61% from \$15.1 million for the same period in 2011.

"We are excited to receive the SFDA's production approval for Candesartan in November. We believe this drug will bring positive impact on our current existing product line which has been significantly influenced by the Healthcare Reform and its associated pricing pressure in the recent quarters," Ms. Zhilin Li, China Pharma's Chairman and CEO continued, "We have adjusted our general sales and credit policies to a conservative stance since the beginning of this year in order to control and improve the growing accounts receivable, and ensure the



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capital requirements for new GMP upgrading requirements are met. Per those mandatory requirements, the upgrading of our dried power injectable line and liquid injectable line must be completed by the end of 2013. We have completed the planning, design and an environment contamination evaluation, and commenced construction relative to certain required facilities and equipment.”

Third quarter of FY2012 Results of Operations

Revenues for the quarter ended September 30, 2012 were \$12.2 million, a decrease of \$8.8 million, or 42% from \$21.0 million for the quarter ended September 30, 2011. The revenue decreased mainly because the implementation of the ever-changing Healthcare Reform policies and the associated pricing adjustment. In addition we reduced our sales-on-credit in order to control our accounts receivables. As a result, sales decreased in three out of our four major product categories.

Most of the decline was from our CNS Cerebral & Cardio Vascular category where sales fell by \$4.0 million, or 56% to \$3.2 million from \$7.2 million for the quarter ended September 30, 2012. Shortfalls in sales of Ozagrel Sodium for Injection and Buflomedil Hydrochloride were major contributors for the decline. Sales in the Anti-Viro/ Infection & Respiratory category fell by \$3.1 million or 37% to \$5.1 million from \$8.2 million in the prior year period. The “Digestive” category sales revenues edged lower by \$2.0 million, or 62% to \$1.2 million from \$3.2 million in the same period prior year. This was mainly because sales across this category were significantly influenced by the NDRC’s price adjustment targeting digestive drugs specifically in the first half of this year. Sales of “Other” category increased by \$0.2 million, or 8% to \$2.5 million from \$2.3 million in third quarter of 2011.

Gross profit for the three months ended September 30, 2012 was \$3.24 million, which was 56.8% lower compared to \$7.51 million in the third quarter of 2011. Our gross margin for the third quarter of 2012 was 26.6%, compared to 35.8% in the corresponding quarter of 2011. Price controls plus rising pharmaceutical materials costs have been squeezing our profit. We expect current challenging pricing environment to persist for some time.

In terms of our gross margins by major categories, Anti-Viro/Infection & Respiratory category was 28% in the third quarter of 2012, compared to 24% in the third quarter 2011 and 26% in the second quarter of 2012. Gross margin for our CNS Cerebral & Cardio Vascular category margins was 23% in the third quarter of 2012, compared to 43% in the third quarter 2011 and 30% in the second quarter of 2012. Gross margin for our Digestive Diseases category was 36% in the third quarter of 2012, compared to 45% in the third quarter 2011 and 28% in the



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second quarter of 2012. And gross margin for our Other category was 23% in the third quarter of 2012, compared to 42% in the third quarter 2011 and 34% in the second quarter of 2012.

Selling, general and administrative expenses in the third quarter of 2012 were \$1.45 million, compared to \$1.63 million, in the same period of 2011. Fixed expenses and the spending on market maintenance and development in selling, general and administrative expenses made this item decrease less than sales did.

Operating income was \$1.6 million in the third quarter of 2012, down 73% from \$6.0 million in the third quarter of 2011. The decrease in operating income was mainly due to lower gross revenue, gross profit and higher bad debt expense partially offset by lower selling and general administrative expenses in the current period compared to the corresponding quarter one year ago.

For the quarter ended September 30, 2012, the Company paid income tax at a rate of approximately 15%. Income tax expense for the third quarter of 2012 was \$0.24 million, compared to \$0.93 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% for corporations in China.

Net income for the third quarter of 2012 was \$1.3 million, or \$0.03 per basic and diluted share, compared to \$5.0 million, or \$0.11 per basic and diluted share, in the third 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.

Nine months Results

Revenues for the nine months ended September 30, 2012 were \$42.9 million, down 27% from revenues of \$58.7 million for the nine months ended September 30, 2011. Gross profit for the nine months ended September 30, 2012 was \$12.7 million, down 41% from gross profit of \$21.7 million for the corresponding period of 2011. Gross margin was 29.6%, compared to 36.9% for the first nine months of 2011. Operating income was \$7.2 million, down 58% from \$17.1 million for the first nine months of 2011. Net income was \$5.9 million, or \$0.13 per basic and diluted share, compared to \$15.1 million, or \$0.35 per basic and diluted share, for the same period a year ago.



Financial Condition

As of September 30, 2012, the Company had cash and cash equivalents of \$5.1 million compared to \$4.1 million as of December 31, 2011.

Working capital increased to \$102.2 million at September 30, 2012 from \$96.8 million at December 31, 2011. The current ratio decreased to 7.2 times at September 30, 2012 from 8.0 times at December 31, 2011.

Accounts receivable balance rose to \$69.8 million at the end of the third quarter of 2012 from \$69.7 million at the end of 2011; which also represents a decrease of \$1.7 million compared to \$71.4 million as of June 30, 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 nine months ended September 30, 2012, cash flow from operating activities was \$3.0 million, as compared to \$ 3.6 million as of December 31, 2011; which represent an improvement from \$1.9 million as of June 30, 2012.

Conference Call

The Company will hold a conference call at 8:30 am ET on November 15, 2012 to discuss third 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 # 65749586. 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 23, 2012 by dialing 1-855-452-5696 or 61-281-990-299 for international callers, Conference ID # 65749586.

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



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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.

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. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>September 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,061,766	\$ 4,050,854
Banker's acceptances	365,248	83,512
Trade accounts receivable, less allowance for doubtful accounts of \$4,268,356 and \$3,536,405, respectively	69,819,575	69,695,556
Other receivables, less allowance for doubtful accounts of \$52,860 and \$38,921, respectively	128,841	55,039
Advances to suppliers	4,833,859	5,778,841
Inventory	37,814,472	30,378,658
Deferred tax assets	678,297	566,226
Total Current Assets	<u>118,702,058</u>	<u>110,608,686</u>
Advances for purchases of property and equipment	1,190,423	170,323
Advances for purchases of intangible assets	37,691,586	36,194,494
Property and equipment, net of accumulated depreciation of \$4,049,480 and \$3,391,124, respectively	5,818,475	6,334,817
Intangible assets, net of accumulated amortization of \$3,518,478 and \$3,041,804, respectively	2,644,281	3,082,671
TOTAL ASSETS	<u>\$ 166,046,823</u>	<u>\$ 156,390,991</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 4,790,189	\$ 3,112,385
Accrued expenses	193,088	184,017
Accrued taxes payable	3,018,972	3,082,353
Other payables	966,432	822,448
Advances from customers	2,361,660	1,784,474
Other payables - related parties	1,254,567	861,563
Short-term notes payable	3,956,322	3,931,745
Total Current Liabilities	<u>16,541,230</u>	<u>13,778,985</u>
Long-term deferred tax liability	170,756	128,909
Total Liabilities	<u>16,711,986</u>	<u>13,907,894</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; 43,579,557 shares and 43,529,557 shares outstanding, respectively	43,580	43,530
Additional paid-in capital	23,590,204	23,448,534
Retained earnings	110,148,426	104,286,666
Accumulated other comprehensive income	15,552,627	14,704,367
Total Stockholders' Equity	<u>149,334,837</u>	<u>142,483,097</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 166,046,823</u>	<u>\$ 156,390,991</u>

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

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Revenue	\$ 12,176,344	\$ 20,987,725	\$ 42,861,478	\$ 58,708,134
Cost of revenue	8,932,552	13,472,804	30,174,983	37,041,618
Gross profit	3,243,792	7,514,921	12,686,495	21,666,516
Operating expenses:				
Selling expenses	856,172	1,006,815	2,632,177	2,410,516
General and administrative expenses	598,258	621,336	2,087,401	2,525,230
Bad debt expense (benefit)	171,508	(76,187)	724,745	(185,463)
Total operating expenses	1,625,938	1,551,964	5,444,323	4,750,283
Government subsidy income	-	968	-	146,415
Income from operations	1,617,854	5,963,925	7,242,172	17,062,648
Other income (expense):				
Interest income	1,588	1,241	3,069	5,656
Interest expense	(79,507)	(62,438)	(235,516)	(184,874)
Derivative gain	-	-	-	934,260
Net other income (expense)	(77,919)	(61,197)	(232,447)	755,042
Income before income taxes	1,539,935	5,902,728	7,009,725	17,817,690
Income tax expense	(244,452)	(927,845)	(1,147,965)	(2,670,115)
Net income	1,295,483	4,974,883	5,861,760	15,147,575
Other comprehensive income - foreign currency translation adjustment	(124,625)	1,556,979	848,260	4,404,968
Comprehensive income	\$ 1,170,858	\$ 6,531,862	\$ 6,710,020	\$ 19,552,543
Earnings per Share:				
Basic	\$ 0.03	\$ 0.11	\$ 0.13	\$ 0.35
Diluted	\$ 0.03	\$ 0.11	\$ 0.13	\$ 0.35

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

	For the Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	\$ 5,861,760	\$ 15,147,575
Depreciation and amortization	1,096,641	1,081,890
Stock based compensation	141,721	139,074
Bad debt expense (benefit)	724,745	(185,463)
Deferred income taxes	(67,603)	67,789
Derivative gain	-	(934,260)
Changes in assets and liabilities:		
Trade accounts receivable	(2,443,587)	(9,507,941)
Other receivables	(73,579)	3,204
Advances to suppliers	1,385,889	228,319
Inventory	(5,911,799)	(274,331)
Trade accounts payable	1,661,109	(1,933,820)
Accrued expenses	80,653	309,977
Accrued taxes payable	(83,191)	812,897
Other payables	30,203	45,162
Advances from customers	566,972	410,195
Net Cash Provided by Operating Activities	2,969,934	5,410,267
Cash Flows from Investing Activities:		
Net investment in banker's acceptances	-	(130,135)
Advances for purchases of property and equipment	(1,020,731)	-
Advances for purchases of intangible assets	(1,272,956)	(4,334,490)
Purchase of property and equipment	(81,352)	(280,645)
Net Cash Used in Investing Activities	(2,375,039)	(4,745,270)
Cash Flows from Financing Activity:		
Proceeds from related party loan	393,004	347,919
Net Cash Provided by Financing Activity	393,004	347,919
Effect of Exchange Rate Changes on Cash	23,013	147,738
Net Increase in Cash and Cash Equivalents	1,010,912	1,160,654
Cash and Cash Equivalents at Beginning of Period	4,050,854	3,692,086
Cash and Cash Equivalents at End of Period	\$ 5,061,766	\$ 4,852,740
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 228,874	\$ 179,467
Cash paid for income taxes	1,343,957	1,554,339
Supplemental Noncash Investing and Financing Activities:		
Accounts payable for purchases of property and equipment	\$ 144,153	\$ 145,777
Accounts receivable collected with banker's acceptances	2,026,928	5,161,084
Advances to suppliers paid with banker's acceptances	402,338	-
Inventory purchased with banker's acceptances	1,248,820	5,161,084