

China Pharma Holdings, Inc. Reports Full Year 2012 Financial Results

HAIKOU CITY, China, May 15, 2013 - China Pharma Holdings, Inc. (NYSE MKT: CPHI) ("China Pharma" or the "Company"), an NYSE MKT listed corporation with its fully-integrated specialty pharmaceuticals subsidiary based in China, today announced financial results for the year ended December 31, 2012.

Full Year Highlights

- Revenue decreased 33% to \$54.5 million in fiscal year 2012 from \$81.2 million in fiscal year 2011.
- Income from operations was \$5.9 million in fiscal year 2012 compared to \$22.0 million in 2011, a decrease of \$16.1 million, or 73%.
- Net income was \$4.6 million in fiscal year 2012 compared to \$19.3 million in 2011, a decrease of \$14.7 million, or 76%. Earnings per common share was 11 cents per basic and diluted share in fiscal 2012 compared with 44 cents per share in 2011, a decrease of 75%.
- Gross profit margin was 26% in fiscal year 2012, a decrease from 36% in fiscal 2011.

"The healthcare reform has produced encouraging results in improving the standards of healthcare service for people in China. The changes produced by the reform, however, have created pricing pressures on nearly all pharmaceutical products across the industry, and we expect this environment to continue for some time to come. The economic and pharmaceutical challenges and uncertainties, raising cost and price cutting had negatively impacted our business in 2012, which led to the overall decline in sales of our products." Ms. Zhilin Li, China Pharma's Chairman and CEO continued, "Per the mandatory requirements of new Good Manufacturing Practice (GMP) requirements, the upgrading of our dried power injectable line and liquid injectable line must be completed by the end of 2013. Therefore we have adjusted our general sales and credit policies to a conservative stance since the beginning of 2012 in order to ensure the capital requirements for new GMP upgrading requirements are met, and control and improve the growing accounts receivable. We have completed the planning, design and an environment contamination evaluation, and commenced construction relative to certain required facilities and equipment. We expect the launch of Candesartan in 2013 to bring positive strength to our performance."



Full Year Results

Revenues for the year ended December 31, 2012 were \$54.5 million, dropped 33% from revenues of \$81.2 million for the year ended December 31, 2011. This decrease was primarily from our CNS Cerebral & Cardio Vascular product category in terms of the decrease in dollar amount (approximately \$10.6 million) and digestive disease product category in terms of percentage of decrease in revenues (approximately 44%).

The most significant revenue decrease in terms of dollar amount was in our “CNS Cerebral & Cardio Vascular” product category, which generated \$15.2 million in sales revenue compared to \$25.8 million a year ago, a decrease of \$10.6 million. Sales of the “Anti-Viro/Infection & Respiratory” category decreased by \$7.5 million to \$24.5 million in 2012 compared to \$32.0 million in 2011. Our “Digestive Diseases” category generated \$7.0 million of sales in 2012, compared to \$12.4 million in the previous year, or a decrease of \$5.4 million. Our “Other” product category sales fell to \$7.8 million from \$11.0 million, a decrease of \$3.2 million.

Gross profit for the year ended December 31, 2012 was \$14.0 million, compared to gross profit of \$29.0 million in 2011, a decrease of 51%. Gross margin was 26% in 2012, compared to 36% for 2011. The Healthcare Reform instituted by the Chinese government since 2009 has resulted in margin compression in most pharmaceutical products on the markets today, especially in the generic space that many of our products are in. The decrease of sales and continued increase of the purchase price of raw materials attributed to the decrease of gross profit. Going forward we expect to see continued pricing pressure on most products, but new products such as Candesartan and Rosuvastatin could help to support overall gross margin once they are launched.

Selling, general and administrative expenses in 2012 were \$6.8 million, or 12.6% of sales, compared to \$7.2 million, or 8.8% of sales, in 2011. For the year ended December 31, 2012, the Company’s bad debt expense was \$0.9 million, compared to a bad debt expense of \$0.1 million in 2011.

The carrying values of long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Impairment losses of \$593,095 relating to intangible assets were recognized during the year ended December 31, 2012. No impairment losses were recognized during the year ended December 31, 2011.



China Pharma Holdings, Inc.

Operating income was \$5.9 million in 2012 compared to \$22.0 million in 2011, a decrease of 73%. The lower operating income in 2012 reflects lower revenue, lower gross profits and higher bad debt expenses in 2012.

In the years ended December 31, 2012 and 2011, we paid income tax at the rate of 15%. Income tax expense was \$0.98 million and \$3.44 million for the years ended December 31, 2012 and 2011 respectively. We obtained the "National High-Tech Enterprise" status ("National HT Status") from the PRC government in the fourth quarter of 2010. With this designation, we are entitled to a preferential tax rate of 15% for the years ending December 31, 2011, 2012 and 2013, which is notably lower than the statutory income tax rate of 25%.

Net income for the year 2012 was \$4.6 million, or \$0.11 per basic and diluted share, compared to \$19.3 million, or \$0.44 per basic and diluted share in 2011.

Financial Condition

As of December 31, 2012, the Company had cash and cash equivalents of \$4.0 million compared to \$4.1 million as of December 31, 2011. Year-over-year, working capital increased to \$98 million in 2012 from \$97 million in 2011 and the current ratio was 8.0 times in both 2012 and 2011.

Accounts receivable balance decreased to \$66.2 million at December 31, 2012 from \$69.7 million at December 31, 2011. Our receivable decreased due to decreased sales and the improved performance of our collection in accounts receivable.

For the year ended December 31, 2012, cash flow from operating activities was \$3.6 million, as compared to \$5.2 million in 2011. As a common business practice in China, Banker's Acceptances (BAs) are often used to settle payment instead of checks. If cash equivalent treatment were to be applied to BAs with more than 90 days maturity, \$5.2 million would have been generated in operating activities in the year ended December 31, 2012. This was mainly because of the improved performance in collection of accounts receivable partially offset the decrease in net income in 2012.

Pipeline Update

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



China Pharma Holdings, Inc.

- Candesartan. The Company received production approval from the SFDA for Candesartan, a front-line drug therapy it developed for the treatment of hypertension in November 2012. It plans to launch this product during 2013.
- The Company completed clinical trials of Rosuvastatin, a generic form of Crestor, and is in the process of production approval process.
- Antibiotic Combination. The Company completed the Phase I clinical trials of its novel cephalosporin-based combination antibiotic in the third quarter of 2010. It is currently in Phase II of the clinical trial which is progressing well.
- The Company is developing a medicine for the treatment of coronary heart disease. This product comes with a patented TCM formula and It is currently conducting Phase III clinical trials for this drug.

Conference Call

The Company will hold a conference call at 8:30 am ET on March 15, 2013 to discuss fiscal year 2012 results. Listeners may access the call by dialing 1-866-519-4004 or 65-672-393-81 for international callers, Conference ID # 15878326. A webcast will also be available through CPHI's website at <http://www.chinapharmaholdings.com>. A replay of the call will be accessible through March 22, 2013 by dialing 1-855-452-5696 or 61-281-990-299 for international callers, Conference ID # 15878326.

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 important 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 -

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CHINA PHARMA HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,029,708	\$ 4,050,854
Banker's acceptances	101,570	83,512
Trade accounts receivable, less allowance for doubtful accounts of \$4,429,945 and \$3,536,405, respectively	66,175,570	69,695,556
Other receivables, less allowance for doubtful accounts of \$49,881 and \$38,921, respectively	80,799	55,039
Advances to suppliers	4,816,354	5,778,841
Inventory	36,359,516	30,378,658
Deferred tax assets	967,671	566,226
Total Current Assets	<u>112,531,188</u>	<u>110,608,686</u>
Advances for purchases of property and equipment	-	170,323
Advances for purchases of intangible assets	39,263,977	36,194,494
Property and equipment, net of accumulated depreciation of \$4,273,373 and \$3,391,124, respectively	9,031,894	6,334,817
Intangible assets, net of accumulated amortization of \$2,944,726 and \$3,041,804, respectively	2,412,854	3,082,671
TOTAL ASSETS	<u>\$ 163,239,913</u>	<u>\$ 156,390,991</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 2,841,862	\$ 3,112,385
Accrued expenses	202,185	184,017
Accrued taxes payable	2,426,826	3,082,353
Other payables	1,094,886	822,448
Advances from customers	1,945,984	1,784,474
Other payables - related parties	1,354,567	861,563
Short-term notes payable	4,761,073	3,931,745
Total Current Liabilities	<u>14,627,383</u>	<u>13,778,985</u>
Long-term deferred tax liability	95,963	128,909
Total Liabilities	<u>14,723,346</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	108,904,325	104,286,666
Accumulated other comprehensive income	15,978,458	14,704,367
Total Stockholders' Equity	<u>148,516,567</u>	<u>142,483,097</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 163,239,913</u>	<u>\$ 156,390,991</u>

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

	For the Years Ended	
	December 31,	
	<u>2012</u>	<u>2011</u>
Revenue	\$ 54,507,049	\$ 81,166,739
Cost of revenue	38,660,814	52,178,680
Inventory obsolescence	1,769,984	-
 Gross profit	 <u>14,076,251</u>	 <u>28,988,059</u>
Operating expenses:		
Selling expenses	3,535,214	3,439,522
General and administrative expenses	3,313,306	3,716,397
Bad debt expense	871,612	108,085
Impairment of intangible assets	593,095	-
Total operating expenses	<u>8,313,227</u>	<u>7,264,004</u>
 Government subsidy income	 <u>141,987</u>	 <u>301,672</u>
 Income from operations	 <u>5,905,011</u>	 <u>22,025,727</u>
Other income (expense):		
Interest income	4,944	7,208
Interest expense	(308,375)	(255,198)
Derivative gain	-	934,260
Net other income (expense)	<u>(303,431)</u>	<u>686,270</u>
 Income before income taxes	 5,601,580	 22,711,997
Income tax expense	(983,921)	(3,442,355)
Net income	<u>4,617,659</u>	<u>19,269,642</u>
 Other comprehensive income - foreign currency translation adjustment	 <u>1,274,091</u>	 <u>5,080,098</u>
Comprehensive income	<u>\$ 5,891,750</u>	<u>\$ 24,349,740</u>
 Earnings per Share:		
Basic	<u>\$ 0.11</u>	<u>\$ 0.44</u>
Diluted	<u>\$ 0.11</u>	<u>\$ 0.44</u>

CHINA PHARMA HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net income	\$ 4,617,659	\$ 19,269,642
Depreciation and amortization	1,462,771	1,174,822
Stock based compensation	141,720	196,183
Derivative gain	-	(934,260)
Bad debt expense	871,613	108,085
Impairment of intangible assets	593,095	-
Inventory obsolescence provision	1,769,984	-
Deferred income taxes	(430,250)	37,281
Changes in assets and liabilities:		
Trade accounts and other receivables	(1,098,322)	(11,392,154)
Advances to suppliers	1,014,760	(251,171)
Inventory	(4,702,575)	(2,925,143)
Trade accounts payable	(306,040)	(1,928,259)
Accrued expenses and other liabilities	246,817	758,783
Accrued taxes payable	(683,357)	591,470
Other payables	744	13,327
Advances from customers	145,201	518,718
Net Cash Provided by Operating Activities	3,643,820	5,237,324
Cash Flows from Investing Activities:		
Net investment in banker's acceptances	-	(82,149)
Advances for purchases of property and equipment	(1,612,670)	-
Advances for purchases of intangible assets	(3,218,035)	(5,191,385)
Purchase of property and equipment	(156,878)	(352,362)
Net Cash Used in Investing Activities	(4,987,583)	(5,625,896)
Cash Flows from Financing Activity:		
Proceeds from issuance of notes payable	793,223	-
Borrowings from related party	493,004	595,670
Net Cash Provided by Financing Activity	1,286,227	595,670
Effect of Exchange Rate Changes on Cash	36,390	151,670
Net Increase (Decrease) in Cash	(21,146)	358,768
Cash and Cash Equivalents at Beginning of Period	4,050,854	3,692,086
Cash and Cash Equivalents at End of Period	\$ 4,029,708	\$ 4,050,854
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 298,433	\$ 248,018
Cash paid for income taxes	2,138,853	4,532,592
Supplemental Noncash Investing and Financing Activities:		
Accounts payable for purchases of property and equipment	\$ 151,731	\$ 143,151
Accounts receivable collected with banker's acceptances	4,354,825	6,102,570
Inventory purchased with banker's acceptances	2,768,805	6,102,570
Advances for purchases of property and equipment paid with banker's acceptances	1,540,820	-
Advances for purchases of intangibles paid with banker's acceptances	27,909	-