



China Pharma Holdings, Inc.

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China Pharma Holdings, Inc. Reports Second Quarter 2015 Financial Results

HAIKOU CITY, China, August 14, 2015 - 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 quarter ended June 30, 2015.

Second Quarter Highlights

- Revenue decreased 7.4% to \$5.7 million in the second quarter of 2015 from \$6.1 million in the second quarter of 2014.
- Gross loss was (\$0.06) million in the second quarter of 2015, compared to gross profit of \$2.4 million in the second quarter of 2014.
- Loss from operations was \$3.8 million in the second quarter of 2015 compared to \$8.5 million in the second quarter of 2014.
- Net loss was \$4.1 million in the second quarter of 2015 compared to \$8.6 million in the second quarter of 2014. Loss per common share was \$0.09 per basic and diluted share in the second quarter of 2015 compared with \$0.20 per basic and diluted share in the same period of 2014.

“Our cost and expenses have experienced certain increase in this quarter due to the new GMP standards for quality control improvement, which lead to an increase in our production costs and the increased sales efforts to recover market shares.” said Ms. Zhilin Li, China Pharma's Chairman and CEO. Ms. Li continued, “Although the financial performance in this quarter did not immediately reflect the material



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change of our production ability, through continuing efforts, we are very confident on recovering and expanding market. And the CNY 9.6 million (approximately USD 1.6 million) government subsidies we received in July 2015 also reflects the recognition from government on the fundamentals of our business. In addition, we also plan to upgrade the cephalosporin, and granule production line in our old factories by the end of this year. ”

Second Quarter Results

Revenue for the three months ended June 30, 2015 was \$5.7 million, a decrease of 7% from \$6.1 million for the three months ended June 30, 2014. This was mainly because we were in the middle of the GMP upgrading process starting from 2014 and, as a result, we missed some drug tenders in several provinces, which affect the sales of subsequent quarters.

For the three months ended June 30, 2015, our cost of revenue was \$4.5 million, or 80% of total revenue, which represented an increase of \$0.8 million from \$3.7 million, or 61% of total revenue, in the second quarter of 2014. The increase in cost of revenue in the second quarter of 2015 was mainly caused by the introduction of new GMP standards for quality control improvement, which leads to an increase in our production costs, such as energy consumption and depreciation.

There was \$1.2 million of inventory obsolescence recorded for the three months ended June 30, 2015, and no inventory obsolescence for the three months ended June 30, 2014. We started recording inventory obsolescence allowance on a quarterly basis from the first quarter of 2015 as we believe it may result in material modification in our financial statements; while previously, we tested and recorded inventory obsolescence allowance on an annual basis.

Gross loss for the three months ended June 30, 2015 was \$0.06 million, compared to gross profit of \$2.4 million in the same quarter of 2014. Our gross loss margin in the second quarter of 2015 was (1%) compared to gross profit margin of 39% in the same period 2014. Without considering the effect of inventory obsolescence in the three months ended June 30, 2015, management estimates that our gross profit margin would have been approximately 20% in this period. The decrease in gross profit margin was mainly due to the increase in production costs incurred to comply with the new GMP requirements, increased lower margin products sold in this period, as well as the inventory obsolescence incurred in the second quarter of 2015.

Our selling expenses for the three months ended June 30, 2015 were \$1.0 million, compared to \$0.6 million in the same period last year. Selling expenses accounted for 18% of the total revenue in the second quarter 2015 compared to 10% in the same period 2014. Due to many adjustments in our selling processes under healthcare reform policies, despite the decrease in sales, we still rely on fixed personnel and expenses to support our revenue and collection of accounts receivable. In addition, once received new GMP certificate,



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we are aiming to recover our market and therefore requires to invest more sales expenses and marketing efforts.

Our research and development expenses for the three months ended June 30, 2015 was \$0.2 million, compared to \$1.9 million in the same period last year. The change in research and development expenses was mainly due to the costs related to testing of the new production lines in the second quarter 2014, while no such expenses incurred in this period because we have received the GMP certificates for those production lines.

Our bad debt expenses for the three months ended June 30, 2015 and 2014 were \$2.1 million and \$8.0 million, respectively. The decrease in bad debt expenses was mainly due to the decrease in aged accounts receivable balance which has not been allowed against previously during the three months ended June 30, 2015, as compared to the same period of 2014. In order to collect cash to support the construction of our new plant and to meet the policy requirements for new GMP upgrading, we have shifted to prudent sales strategies in the recent two years. This strategy strengthened the preference on sales to customers with good credit performance, while reduced the supplement to customers with poor credit. On the one hand, this strategy contributed to the recovery of funds; on the other hand, it negatively impacted our sales and indirectly prolonged the payment from the estranged customers. These two factors resulted in increased proportion of our older-aged accounts receivable balance.

Net loss for three months ended June 30, 2015 and 2014 was \$4.1 million and \$8.6 million, respectively. The decrease in net loss was primarily due to the decrease in bad debt expenses and partially offset by the inventory obsolescence recognized in the second quarter of 2015. For the three months ended June 30, 2015, loss per basic and diluted common share was \$0.09, compared to loss per basic and diluted share of \$0.20 for the same period 2014.

Six Months Results

Revenue for the six months ended June 30, 2015 was \$11.4 million, down 14% from revenue of \$13.2 million for the six months ended June 30, 2014.

Gross profit for the six months ended June 30, 2015 was \$1.0 million, compared to \$5.0 million in the same period of 2014. Gross profit margin for the six months ended June 30, 2015 and 2014 were 9% and 38%, respectively. Without considering the effect of inventory obsolescence in the first half of 2015, management estimates that our gross profit margin would have been approximately 21%. The decrease in gross profit margin was mainly due to the increase in production costs incurred to comply with the new GMP requirements, more lower margin products sold in this period, as well as the inventory obsolescence incurred in the first half of 2015.



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Operating loss was \$11.5 million for the six months ended June 30, 2015, decreased by \$0.6 million from \$10.8 million for the same period of 2014.

Net loss was \$12.1 million, or \$0.28 per basic and diluted share for the six months ended June 30, 2015, compared to \$11.0 million, or \$0.25 per basic and diluted share, for the same period a year ago.

Financial Condition

As of June 30, 2015, the Company had cash and cash equivalents of \$4.5 million, compared to \$5.3 million as of December 31, 2014. Working capital decreased to \$29.9 million in June 30, 2015 from \$40.3 million in December 31, 2014 and the current ratio was 3.1 times at June 30, 2015, decreased from 3.8 times as of December 31, 2014.

Our accounts receivable balance decreased to \$17.2 million as of June 30, 2015 from \$24.9 million as of December 31, 2014. Our receivables decreased due to the decrease in sales, our enhanced collection efforts, and the increase in bad debt allowance.

Conference Call

The Company will hold a conference call at 8:30 am ET on August 14, 2015 to discuss the financial results for the second quarter of 2015. Listeners may access the call by dialing 1-866-519-4004 or 65-671-350-90 for international callers, Conference ID # 2331509. A replay of the call will be accessible through August 22, 2015 by dialing 1-855-452-5696 or 61-281-990-299 for international callers, Conference ID # 2331509.

About China Pharma Holdings, Inc.

China Pharma Holdings, Inc. is a 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 new 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.



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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.

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

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,549,200	\$ 5,295,790
Banker's acceptances	90,330	458,233
Trade accounts receivable, less allowance for doubtful accounts of \$42,844,045 and \$33,350,109, respectively	17,175,376	24,851,086
Other receivables, less allowance for doubtful accounts of \$81,605 and \$60,325, respectively	401,223	272,199
Advances to suppliers	8,450,189	7,889,009
Inventory, less allowance for obsolescence of \$7,222,881 and \$6,934,044, respectively	13,623,919	15,321,856
Prepaid expenses	58,102	404,370
Total Current Assets	<u>44,348,339</u>	<u>54,492,543</u>
Advances for purchases of intangible assets	43,136,305	42,390,186
Property and equipment , net of accumulated depreciation of \$8,413,910 and \$6,640,718, respectively	32,596,716	33,881,878
Intangible assets , net of accumulated amortization of \$4,389,602 and \$4,186,273, respectively	<u>1,154,782</u>	<u>1,317,221</u>
TOTAL ASSETS	<u>\$121,236,142</u>	<u>\$132,081,828</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 3,698,993	\$ 2,550,816
Accrued expenses	253,012	269,870
Other payables	1,527,045	1,401,470
Advances from customers	1,042,971	2,078,866
Other payables - related parties	1,354,567	1,354,567
Current portion of construction loan facility	1,642,360	1,629,062
Short-term notes payable	4,927,079	4,887,187
Total Current Liabilities	<u>14,446,027</u>	<u>14,171,838</u>
Non-current Liabilities:		
Construction loan facility	11,496,518	11,403,438
Long-term deferred tax liability	<u>293,634</u>	<u>252,707</u>
Total Liabilities	<u>26,236,179</u>	<u>25,827,983</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 43,579,557 shares outstanding, respectively	43,580	43,580
Additional paid-in capital	23,590,204	23,590,204
Retained earnings	50,759,606	62,848,901
Accumulated other comprehensive income	<u>20,606,573</u>	<u>19,771,160</u>
Total Stockholders' Equity	<u>94,999,963</u>	<u>106,253,845</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$121,236,142</u>	<u>\$132,081,828</u>



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

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2015	2014	2015	2014
Revenue	\$ 5,674,175	\$ 6,130,544	\$ 11,369,105	\$ 13,236,059
Cost of revenue	4,511,951	3,713,147	8,946,657	8,158,276
Inventory obsolescence	1,218,051	-	1,419,148	-
Gross (loss) profit	<u>(55,827)</u>	<u>2,417,397</u>	<u>1,003,300</u>	<u>5,077,783</u>
Operating expenses:				
Selling expenses	1,012,463	627,442	2,001,416	1,447,847
General and administrative expenses	459,026	382,832	931,455	806,759
Research and development expenses	174,850	1,902,027	335,678	2,346,434
Bad debt expense	2,101,558	8,032,315	9,206,214	11,340,444
Total operating expenses	<u>3,747,897</u>	<u>10,944,616</u>	<u>12,474,763</u>	<u>15,941,484</u>
Loss from operations	<u>(3,803,724)</u>	<u>(8,527,219)</u>	<u>(11,471,463)</u>	<u>(10,863,701)</u>
Other income (expense):				
Interest income	30,222	16,828	57,077	38,611
Interest expense	(322,422)	(113,363)	(636,197)	(169,810)
Net other expense	<u>(292,200)</u>	<u>(96,535)</u>	<u>(579,120)</u>	<u>(131,199)</u>
Loss before income taxes	(4,095,924)	(8,623,754)	(12,050,583)	(10,994,900)
Income tax expense	<u>(19,428)</u>	<u>(19,196)</u>	<u>(38,712)</u>	<u>(38,543)</u>
Net loss	<u>(4,115,352)</u>	<u>(8,642,950)</u>	<u>(12,089,295)</u>	<u>(11,033,443)</u>
Other comprehensive income (loss) - foreign currency translation adjustment	348,857	153,664	835,413	(961,320)
Comprehensive loss	<u>\$ (3,766,495)</u>	<u>\$ (8,489,286)</u>	<u>\$ (11,253,882)</u>	<u>\$ (11,994,763)</u>
Loss per share:				
Basic	<u>\$ (0.09)</u>	<u>\$ (0.20)</u>	<u>\$ (0.28)</u>	<u>\$ (0.25)</u>
Diluted	<u>\$ (0.09)</u>	<u>\$ (0.20)</u>	<u>\$ (0.28)</u>	<u>\$ (0.25)</u>



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

	For the Six Months Ended June 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net loss	\$ (12,089,295)	\$ (11,033,443)
Depreciation and amortization	1,884,749	596,819
Bad debt expense	9,206,214	11,340,444
Inventory obsolescence reserve	231,326	-
Deferred income taxes	38,712	38,543
Changes in assets and liabilities:		
Trade accounts and other receivables	(2,437,248)	(3,707,678)
Advances to suppliers	(494,834)	429,998
Inventory	2,508,519	4,781,501
Trade accounts payable	1,231,153	714,380
Accrued taxes payable	81,600	(35,513)
Other payables and accrued expenses	23,927	(124,072)
Advances from customers	(1,048,730)	(587,165)
Prepaid expenses	348,196	-
Net Cash Provided by Operating Activities	(515,711)	2,413,814
Cash Flows from Investing Activities:		
Purchases of property and equipment and construction in process	-	-
	(264,869)	(4,543,490)
Net Cash Used in Investing Activities	(264,869)	(4,543,490)
Cash Flows from Financing Activity:		
Proceeds from construction term loan	-	605,347
Net Cash Provided by Financing Activity	-	605,347
Effect of Exchange Rate Changes on Cash	9,790	(43,066)
Net (Decrease) Increase in Cash and Cash Equivalents	(770,790)	(1,567,395)
Cash and Cash Equivalents at Beginning of Period	5,319,990	5,993,139
Cash and Cash Equivalents at End of Period	\$ 4,549,200	\$ 4,425,744
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 629,424	\$ 621,841
Cash paid for income taxes	-	-
Supplemental Noncash Investing and Financing Activities:		
Accounts payable for purchases of property and equipment	\$ 108,224	\$ 35,275
Accounts receivable collected with banker's acceptances	952,353	944,624
Inventory purchased with banker's acceptances	924,000	1,235,956
Advances for intangible assets purchased with banker's acceptances	398,537	-