CHINA PHARMA HOLDINGS, INC.
Form 10-Q
August 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2014

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission File Number 001-34471

CHINA PHARMA HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

| Nevada | 73-1564807 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

Second Floor, No. 17, Jinpan Road
Haikou, Hainan Province, China 570216
(Address of principal executive offices) (Zip Code)

+86- 898-6681-1730 (China)
(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 43,579,557 shares of Common Stock, $.001 par value, were outstanding as of August 11, 2014.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited condensed consolidated balance sheets, statements of operations and comprehensive income, and statements of cash flows and the related notes thereto, have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. The financial statements reflect all adjustments, consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair presentation for the interim periods.

The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013.

The results of operations for the six-month period ended June 30, 2014 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $4,425,744 | $5,993,139 |
| Banker's acceptances | 92,832 | 336,003 |
| Trade accounts receivable, less allowance for doubtful accounts of $24,499,361 and $13,301,622, respectively | 35,904,934 | 45,147,602 |
| Other receivables, less allowance for doubtful accounts of $60,083 and $43,064, respectively | 482,862 | 175,739 |
| Advances to suppliers | 7,142,290 | 7,626,716 |
| Inventory, less allowance for obsolescence of $7,968,701 and $8,027,126, respectively | 20,960,894 | 24,677,120 |
| Total Current Assets | 69,009,556 | 83,956,319 |
| | | |
| Advances for purchases of intangible assets | 41,397,984 | 41,701,505 |
| Property and equipment, net of accumulated depreciation of $5,628,507 and $5,264,350, respectively | 34,115,618 | 30,241,337 |
| Intangible assets, net of accumulated amortization of $3,978,083 and $3,812,992, respectively | 1,506,490 | 1,711,793 |
| TOTAL ASSETS | $146,029,648 | $157,610,954 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Trade accounts payable | $2,541,166 | $1,877,437 |
| Accrued expenses | 293,539 | 323,651 |
| Other payables | 1,179,720 | 1,312,361 |
| Advances from customers | 1,626,334 | 2,228,238 |
| Other payables - related parties | 1,354,567 | 1,354,567 |
| Short-term notes payable | 4,873,928 | 4,909,662 |
| Total Current Liabilities | 11,869,254 | 12,005,916 |
| Non-current Liabilities: | | |
| Construction loan facility | 12,997,141 | 12,484,183 |
| Long-term deferred tax liability | 213,575 | 176,414 |
| Total Liabilities | 25,079,970 | 24,666,513 |
| 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 | 77,862,833 | 88,896,276 |
| Accumulated other comprehensive income | 19,453,061 | 20,414,381 |
| Total Stockholders' Equity | 120,949,678 | 132,944,441 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $146,029,648 | $157,610,954 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | $6,130,544 | $8,026,325 | $13,236,059 | $16,275,712 |
| Cost of revenue | 3,713,147 | 5,849,002 | 8,158,276 | 11,974,402 |
| Inventory obsolescence | - | 27,178 | - | 3,720,073 |
| Gross profit | 2,417,397 | 2,150,145 | 5,077,783 | 581,237 |
| Operating expenses: | | | | |
| Selling expenses | 627,442 | 701,687 | 1,447,847 | 1,513,741 |
| General and administrative expenses | 382,832 | 591,251 | 806,759 | 1,164,263 |
| Research and development expenses | 1,902,027 | 865,249 | 2,346,434 | 1,031,664 |
| Bad debt expense | 8,032,315 | 4,752,733 | 11,340,444 | 4,632,803 |
| Total operating expenses | 10,944,616 | 6,910,920 | 15,941,484 | 8,342,471 |
| (Loss) income from operations | (8,527,219) | (4,760,775) | (10,863,701) | (7,761,234) |
| Other income (expense): | | | | |
| Interest income | 16,828 | 1,016 | 38,611 | 2,602 |
| Interest expense | (113,363) | (92,049) | (169,810) | (174,494) |
| Net other income (expense) | (96,535) | (91,033) | (131,199) | (171,892) |
| (Loss) income before income taxes | (8,623,754) | (4,851,808) | (10,994,900) | (7,933,126) |
| Income tax benefit (expense) | (19,196) | 387,983 | (38,543) | 656,994 |
| Net (loss) income | (8,642,950) | (4,463,825) | (11,033,443) | (7,276,132) |
| Other comprehensive income - foreign currency translation adjustment | 153,664 | 2,218,896 | (961,320) | 3,038,663 |
| Comprehensive (loss) income | $(8,489,286) | $(2,244,929) | $(11,994,763) | $(4,237,469) |
| (Loss) earnings per share: | | | | |
| Basic | $(0.20) | $(0.10) | $(0.25) | $(0.17) |
| Diluted | $(0.20) | $(0.10) | $(0.25) | $(0.17) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash Flows from Operating Activities: | | |
| Net loss | $(11,033,443) | $(7,276,132) |
| Depreciation and amortization | 596,819 | 697,549 |
| Bad debt expense | 11,340,444 | 4,632,803 |
| Deferred income taxes | 38,543 | (656,994) |
| Inventory obsolescence reserve | - | 3,720,073 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (3,398,497) | 1,672,236 |
| Other receivables | (309,181) | (468,509) |
| Advances to suppliers | 429,998 | (648,436) |
| Inventory | 4,781,501 | 1,745,256 |
| Trade accounts payable | 714,380 | 1,403,638 |
| Accrued taxes payable | (35,513) | (1,767,344) |
| Other payables and accrued expenses | (124,072) | (15,103) |
| Advances from customers | (587,165) | 19,003 |
| Net Cash Provided by Operating Activities | 2,413,814 | 3,058,040 |
| | | |
| Cash Flows from Investing Activities: | | |
| Advances for purchases of intangible assets | - | (4,572,982) |
| Purchases of property and equipment and construction in process | (4,543,490) | (49,030) |
| Net Cash Used in Investing Activities | (4,543,490) | (4,622,012) |
| | | |
| Cash Flows from Financing Activities: | | |
| Proceeds from construction term loan | 605,347 | - |
| Net Cash Provided by Financing Activity | 605,347 | - |
| | | |
| Effect of Exchange Rate Changes on Cash | (43,066) | 58,787 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (1,567,395) | (1,505,185) |
| Cash and Cash Equivalents at Beginning of Period | 5,993,139 | 4,029,708 |
| Cash and Cash Equivalents at End of Period | $4,425,744 | $2,524,523 |
| | | |
| Supplemental Cash Flow Information: | | |
| Cash paid for interest | $621,841 | $167,819 |
| Cash paid for income taxes | - | 1,716,064 |
| | | |
| Supplemental Noncash Investing and Financing Activities: | | |
| Accounts payable for purchases of property and equipment | $35,275 | $153,621 |
| Accounts receivable collected with banker's acceptances | 994,624 | 5,756,309 |
| Inventory purchased with banker's acceptances | 1,235,956 | 2,099,243 |
| Advances for purchases of equipment paid with banker's acceptances | - | 2,063,840 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

Organization and Nature of Operations – China Pharma Holdings, Inc., a Nevada corporation, owns 100% of Onny Investment Limited ("Onny"), a British Virgin Islands corporation, that in turn owns 100% of Hainan Helpson Medical & Biotechnology Co., Ltd ("Helpson"), a corporation organized under the laws of the People's Republic of China (the "PRC"). China Pharma Holdings, Inc. and its subsidiaries are referred to herein as the Company.

The Foreign Investment Industrial Catalogue (the "Catalogue") jointly issued by the China's Ministry of Commerce and the National Development and Reform Commission (as the latest version is the year 2012 version, effective January 30, 2012) classified various industries/businesses into three different categories: (i) encouraged for foreign investment; (ii) restricted to foreign investment; and (iii) prohibited from foreign investment. For any industry/business not covered by any of these three categories, they will be deemed industries/businesses permitted for foreign investment. A typical foreign investment ownership restriction in the pharmaceutical industry is that a foreign investment enterprise (the "FIE") shall not have the whole or majority of its equity interests owned by a foreign owner if the FIE establishes more than 30 branch stores and distributes a variety of brands in those franchise stores, which is not the case of the Company's business.

Helpson manufactures and markets generic and branded pharmaceutical products as well as biochemical products primarily to hospitals and private retailers located throughout the PRC. The Company believes Helpson's business is not subject to any ownership restrictions prescribed under the Catalogue. Onny acquired 100% of the ownership in Helpson from Helpson's three former shareholders on May 25, 2005 by entry into an Equity Transfer Agreement with such three parties on May 25, 2005. The transaction was approved by the Commercial Bureau of Hainan Province on June 12, 2005 and Helpson received the Certificate of Approval for Establishing of Enterprises with Foreign Investment in the PRC on the same day and its business license evidencing its WFOE (Wholly Foreign Owned Enterprise) status on June 21, 2005.

The Company has and continues to acquire well-accepted medical formulas to add to its diverse portfolio of Western and Chinese medicines.

Consolidation and Basis of Presentation – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are expressed in United States dollars. The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Helpson's functional currency is the Chinese Renminbi. Helpson's revenue and expenses are translated into United States dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. Gains or losses from translating Helpson's financial statements are included in accumulated other comprehensive income, which is a component of stockholders' equity. Gains and losses arising from transactions denominated in a currency other than the functional currency of the entity that is a party to the transaction are included in the results of operations.

Reclassification - The Company has made certain reclassifications to the condensed consolidated statement of operations and cash flows for the three and six months ended June 30, 2013 to conform to the presentation for the

three and six months ended June 30, 2014. These reclassifications had no effect on the condensed consolidated balance sheets, results of operations or cash flows as of or for the six months ended June 30, 2013.

Condensed Financial Statements – The accompanying unaudited condensed consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "Commission"). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Management of the Company ("Management") believes the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Commission on March 20, 2014.

These unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of Management, are necessary to present fairly the consolidated financial position and results of operations of the Company for the periods presented. Operating results for the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Accounting Estimates - The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Basic and Diluted (Loss) Earnings per Common Share - Basic (loss) earnings per common share is computed by dividing net (loss) income by the weighted-average number of common shares outstanding during the period. Diluted (loss) earnings per share is calculated to give effect to potentially issuable dilutive common shares.

The following table is a presentation of the numerators and denominators used in the calculation of basic and diluted (loss) earnings per share:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | $(8,642,950) | $(4,463,825) | $(11,033,443) | $(7,276,132) |
| Basic weighted-average common shares outstanding | 43,579,557 | 43,579,557 | 43,579,557 | 43,579,557 |
| Effect of dilutive securities: | | | | |
| Warrants | - | - | - | - |
| Options | - | - | - | - |
| Diluted weighted-average common shares outstanding | 43,579,557 | 43,579,557 | 43,579,557 | 43,579,557 |
| Basic loss per share | $(0.20) | $(0.10) | $(0.25) | $(0.17) |
| Diluted loss per share | $(0.20) | $(0.10) | $(0.25) | $(0.17) |

The following potential common shares were not included in the computation of diluted (loss) earnings per share as their effect would have been anti-dilutive:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Warrants with exercise prices of $3.00 to $3.80 per share | - | 150,000 | - | 150,000 |
| Options with an exercise price of $2.54 to $3.47 per share | - | 50,000 | - | 50,000 |
| Total | - | 200,000 | - | 200,000 |

NOTE 2 – INVENTORY

Inventory consisted of the following:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Raw materials | $24,248,940 | $28,259,707 |

| | | |
|---|---|---|
| Work in process | 1,164,355 | 853,602 |
| Finished goods | 3,516,300 | 3,590,937 |
| | 28,929,595 | 32,704,246 |
| Obsolescence reserve | (7,968,701 ) | (8,027,126 ) |
| Total Inventory | $20,960,894 | $24,677,120 |

As of June 30, 2014, the entire work-in process inventory includes the raw material and other production costs related to the trial production at the new injectable lines of the new facility. Under the current regulation, the Company is allowed to sell qualified finished goods from trial production once the new production line obtains the new GMP certification. Management estimated this balance to be categorized as qualified finished goods upon obtaining the new GMP certification.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Permit of land use | $457,609 | $460,964 |
| Building | 2,476,466 | 2,494,623 |
| Plant, machinery and equipment | 6,705,795 | 6,671,620 |
| Motor vehicle | 150,567 | 151,670 |
| Office equipment | 238,423 | 229,210 |
| Construction in progress | 29,715,265 | 25,497,600 |
| Total | 39,744,125 | 35,505,687 |
| Less: accumulated depreciation | (5,628,507 ) | (5,264,350 ) |
| Property and Equipment, net | $34,115,618 | $30,241,337 |

Construction in progress consists primarily of the construction of a new production facility and the acquisition of related equipment and capitalized interest during the construction period. A reconciliation of total interest cost incurred to interest expense as recognized in the consolidated statement of operations is as follows:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Total interest cost incurred | $345,626 | $92,049 | $621,841 | $174,494 |
| Interest cost capitalized | 232,263 | - | 452,031 | - |
| Interest expense | $113,363 | $92,049 | $169,810 | $174,494 |

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

| Asset | Life - years |
|---|---|
| Permit of land use | 40 - 70 |
| Building | 20 - 35 |
| Plant, machinery and equipment | 10 |
| Motor vehicle | 5 - 10 |
| Office equipment | 3-5 |

For the three and six months ended June 30, 2014 and 2013, depreciation expense was $201,580 and $215,962, $403,489 and $430,368 respectively.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets represent the cost of medical formulas approved for production by the China Food and Drug Administration (“CFDA”) in China. During the six months ended June 30, 2014, the Company did not obtain CFDA production approval for any medical formula and therefore there were no costs reclassified from advances to medical formulas.

Approved medical formulas are amortized from the date CFDA approval is obtained over their individually identifiable estimated useful life, which ranges from ten to thirteen years. It is at least reasonably possible that a change in the estimated useful lives of the medical formulas could occur in the near term due to changes in the demand for the drugs and medicines produced from these medical formulas. For the three and six months ended June 30, 2014 and 2013, amortization expense relating to intangible assets was $96,284 and $131,119, $193,330 and $267,181, respectively. Medical formulas typically do not have a residual value at the end of their amortization period.

The Company evaluates each approved medical formula for impairment at the date of CFDA approval, when indications of impairment are present and at the date of each financial statement. The Company's evaluation is based on an estimated undiscounted net cash flow model, considering currently available market data for the related drug and the Company's estimated market share. If the carrying value of the medical formula exceeds the estimated future net cash flows, an impairment loss is recognized for the excess of the carrying value over the discounted estimated future net cash flows. As a result of the evaluation, the Company has determined that each medical formula continues to provide benefits to the Company and no impairment was recognized during the six months ended June 30, 2014 or 2013.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

At June 30, 2014 and December 31, 2013, intangible assets consisted solely of CFDA approved medical formulas as follows:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Gross carrying amount | $5,484,573 | $5,524,785 |
| Accumulated amortization | (3,978,083) | (3,812,992) |
| Net carrying amount | $1,506,490 | $1,711,793 |

NOTE 5 – ADVANCES FOR PURCHASES OF INTANGIBLE ASSETS

In order to expand the number of medicines manufactured and marketed by the Company, it has entered into contracts with independent laboratories for the purchase of medical formulas. Although CFDA approval had not been obtained for these medical formulas as of the dates of the respective contracts, the objective of the contracts is for the Company to purchase CFDA-approved medical formulas once the CFDA approval process is completed. Some of the medical formulas currently in the CFDA approval process also come with patents. As of June 30, 2014, the Company had received the title to two unexpired patents that relate to medical formulas currently in the CFDA approval process.

Prior to entering into the contracts, the laboratories typically have completed all required research and development to determine the medical formula for and the method of production of the generic medicine. The application to the CFDA for production approval must be made by the production facility that will produce the related product. As a result, a contract typically provides that the Company buys the medical formula from the laboratory and the laboratory is required to assist the Company in applying for and obtaining the production approval from the CFDA.

A typical CFDA approval process for the production of a generic medical product involves a number of steps that generally require three to five years to complete. If the medical formula is purchased at the point when the generic medical product receives the CFDA's approval for a clinical study, which is very typical for the Company, the clinical study that follows will usually take from one and a half to three years to complete. After the clinical study is completed, the results are submitted to the CFDA and a production approval application is filed with the CFDA. In most cases, it will take between eight to eighteen months to prepare and submit the production approval application and obtain CFDA approval. Upon approving the generic medical product, the CFDA issues a production certificate and the Company can produce and sell the generic medical product. As a result of this process, CFDA approval is expected to be received in approximately two to five years from the dates of the medical formula contracts. However, the actual time needed could be even longer due to the improved criteria in the drug registration process.

Under the terms of the contracts, the laboratories are required to assist the Company in obtaining production approval for the medical formulas from the CFDA. Management monitors the status of each medical formula on a regular basis in order to assess whether the laboratories are performing adequately under the contracts. If a medical product is not approved by the CFDA, as evidenced by their issuance of a denial letter, or if the laboratory breaches the contract, the laboratory is required under the contract to provide a refund to the Company of the full amount of the payments made to the laboratory for that formula, or the Company can require the application of those payments to another medical formula with the same laboratory. As a result of the refund right, the Company is ultimately purchasing an approved

medical product. Accordingly, payments made prior to the issuance of production approval by the CFDA are recorded as advances for purchases of intangible assets.

To date, no formula has failed to receive CFDA production approval nor has the Company been informed or become aware of any formula that may fail to receive such approval. However, there is no assurance that the medical products will receive production approval and if the Company does not receive such approval, it will enforce its contractual rights to receive the refund from the laboratory or have the payments applied to another medical formula with the same laboratory.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

At June 30, 2014, the Company was obligated to pay laboratories and others approximately $5.42 million upon completion of the various phases of contracts to provide CFDA production approval of medical formulas.

NOTE 6 – RELATED PARTY TRANSACTIONS

Total advances owing to the board member were $1,354,567 as of June 30, 2014 and December 31, 2013 and are recorded as other payables – related parties on the accompanying condensed consolidated balance sheets. The advances bear interest at a rate of 1.0% per year. Total interest expense of $6,672 and $6,672 was recognized for the six months ended June 30, 2014 and 2013, respectively.

NOTE 7 – NOTES PAYABLE

On November 1, 2013 the Company entered into a revolving line of credit with a bank in the amount of RMB 30,000,000. Advances on the line of credit are due one year from the date of the advance and are collateralized by certain land use rights, buildings and accounts receivable and bear interest at an annual rate of 6.6% (based upon 110% of the PRC government's current short term rate of 6.00%). The Company's Chief Executive Officer and Chair of the board of directors personally guaranteed the line of credit.

The outstanding balance due under the revolving line of credit was RMB 30,000,000 as of June 30, 2014 and December 31, 2013 ($4,873,928 as of June 30, 2014 and $4,909,662 as of December 31, 2013). The Company has no additional amounts available to it under this line of credit. This amount has been classified as short-term notes payable in the accompanying condensed consolidated balance sheets at June 30, 2014 and December 31, 2013.

NOTE 8 – CONSTRUCTION LOAN FACILITY

The Company had drawn down an aggregate of $12,997,141, which represented the total loan facility amount of RMB 80,000,000 from a construction loan facility dated June 21, 2013. The loan facility is for an eight-year term, which commenced on July 11, 2013, the initial draw-down date and is from the same bank that currently provides the line of credit as discussed in Note 7. The proceeds of the loan were used for and are collateralized by the construction of the Company's new production facility and the included production line equipment and machinery. The loan currently bears interest at 7.205%, based upon 110% of the PRC government's eight-year term rate effective on the actual draw-down date, subject to annual adjustments based on 110% of the floating rate for the same type of loan on the anniversary from the draw-down date and its subsequent anniversary dates. The loan requires interest only payments for the first two years. Beginning July 11, 2015, the balance of the principal is due in annual installments over the next six years through July 11, 2021. At June 30, 2014, the Company had no additional amounts available to it under this facility.

Fair Value of Notes Payable and Construction Loan Facility – Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the carrying amounts of notes payable and the construction loan facility outstanding as of June 30, 2014 and December 31, 2013 approximated their fair value because of either the immediate or short-term maturity of these financial instruments or because the underlying instruments bear interest rates that approximated current market rates.

NOTE 9 - INCOME TAXES

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax laws or rates are recognized in operations in the period that includes the enactment date.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Undistributed earnings of Helpson, the Company's foreign subsidiary, since its acquisition, amounted to approximately $83.2 million at June 30, 2014. Those earnings, as well as the investment in Helpson of approximately $23.3 million, are considered to be indefinitely reinvested and, accordingly, no U.S. federal or state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. federal and state income taxes (net of an adjustment for foreign tax credits) and withholding taxes payable to the PRC. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits may be available to reduce a portion of the U.S. tax liability.

Under current tax law in the PRC, the Company is and will be subject to the following enterprise income tax rates:

| Year | Enterprise Income Tax Rate |
|---|---|
| 2014 | 15% |
| 2015 | 15% |
| 2016 | 15% |
| Thereafter | 25% |

The provision for income taxes consisted of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Current | $ - | $ - | $ - | $ - |
| Deferred | 19,196 | (387,983) | 38,543 | (656,994) |
| Total income tax expense (benefit) | $ 19,196 | $ (387,983) | $ 38,543 | $ (656,994) |

During the six months ended June 30, 2014, the Company utilized approximately $190,000 of the net operating loss available to it for PRC tax purposes. The Company has remaining net operating loss carryforwards for PRC tax purposes of approximately $6.64 million at June 30, 2014 which is available to offset future taxable income through 2018.

In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible or tax loss carry forwards are utilized. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon an assessment of the level of historical taxable income and projections for future taxable income over the periods on which the deferred tax assets are deductible or can be utilized, Management believes it is not likely the Company will realize all of the benefits of the deferred tax assets as of June 30, 2014 and December 31, 2013. Therefore, the Company has provided for a valuation allowance against its deferred tax assets of $5,503,381 and $4,915,960 as of June 30, 2014 and December 31, 2013, respectively.

The Company has also incurred various other taxes, comprised primarily of business taxes, value-added taxes, urban construction taxes, education surcharges and others. Any unpaid amounts are reflected on the balance sheets as accrued taxes payable.

NOTE 10 – FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, a hierarchy has been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows: Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company uses fair value to measure the value of the banker's acceptance notes it holds. The banker's acceptance notes are recorded at cost which approximates fair value. The Company held the following assets recorded at fair value as of June 30, 2014 and December 31, 2013:

| Description | June 30, 2014 | Fair Value Measurements at Reporting Date Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Banker's acceptance notes | $ 92,832 | $ - | $ 92,832 | $ - |
| Total | $ 92,832 | $ - | $ 92,832 | $ - |

| Description | December 31, 2013 | Fair Value Measurements at Reporting Date Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Banker's acceptance notes | $ 336,003 | $ - | $ 336,003 | $ - |
| Total | $ 336,003 | $ - | $ 336,003 | $ - |

NOTE 11 - STOCKHOLDERS' EQUITY

Preferred and Common Stock – The total number of authorized shares is 95,000,000 shares of common stock and 5,000,000 shares of preferred stock. The preferred stock may be issued in series with such designations, preferences, stated values, rights, qualifications or limitations as determined solely by the Company's Board of Directors.

Stock and Stock Options – On November 12, 2010, the Company's Board of Directors adopted, and on December 22, 2010 its stockholders approved the Company's 2010 Incentive Plan (the "Plan"), which gave the Company the ability to grant stock options, restricted stock, stock appreciation rights and performance units to its employees, directors and consultants, or those who will become employees, directors and consultants of the Company and/or its subsidiaries. The Plan currently allows for equity awards of up to 4,000,000 shares of common stock. Through June 30, 2014, there were 175,000 shares of restricted stock granted and outstanding under the Plan.

There were no securities issued from the Plan during the six months ended June 30, 2014 and at June 30, 2014 there was no unrecognized compensation expense related to the securities granted.

NOTE 12 – CONTINGENCIES

Economic environment - Substantially all of the Company's operations are conducted in the PRC, and therefore the Company is subject to special considerations and significant risks not typically associated with companies operating in the United States of America. These risks include, among others, the political, economic and legal environments and fluctuations in the foreign currency exchange rate. The Company's results from operations may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. The unfavorable changes in global macroeconomic factors may also adversely affect the Company's operations.

In addition, all of the Company's revenue is denominated in the PRC's currency of Renminbi (RMB), which must be converted into other currencies before remittance out of the PRC. Both the conversion of RMB into foreign currencies and the remittance of foreign currencies abroad require approval of the PRC government.

NOTE 13 – CONCENTRATIONS

At June 30, 2014, two customers accounted for 15.5% and 10.6% of accounts receivable. At December 31, 2013, two customers accounted for 14.5% and 11.2% of accounts receivable.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

For the six months ended June 30, 2014, one customer accounted for 15.9% of sales. For the six months ended June 30, 2013, two customers accounted for 10.3% and 10.2% of sales, respectively.

For the six months ended June 30, 2014 and 2013, purchases from one supplier accounted for 14.4% and 26.9% of raw material purchases, respectively.

NOTE 14 – SUBSEQUENT EVENTS

On July 18, 2014, the Company's manufacturing facilities and inventory sustained storm damage from a powerful tropical typhoon that hit Haikou on that date. The Company's initial estimate of the loss exceeds $3.25 million (RMB20 million). The Company is still in the process of assessing the damage caused by the storm and this estimate may change in the future. The Company expects minor insurance compensation as only the building of new plant was insured and the damage to it was minor. The old plant was restored to the operational mode at the end of July.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The statements contained in this report with respect to our financial condition, results of operations and business that are not historical facts are forward-looking statements. Forward-looking statements can be identified by the use of forward-looking terminology, such as "anticipate", "believe", "expect", "plan", "intend", "seek", "estimate", "project", "could", "may" or the negative thereof or other variations thereon, or by discussions of strategy that involve risks and uncertainties. Management wishes to caution the readers of the forward-looking statements that any such statements that are contained in this report reflect our current beliefs with respect to future events and involve known and unknown risks, uncertainties and other factors, including, but not limited to, economic, competitive, regulatory, technological, key employees, and general business factors affecting our operations, markets, growth, services, products, licenses and other factors, some of which are described in this report and some of which are discussed in our other periodic filings with the Securities and Exchange Commission. These forward-looking statements are only estimates or predictions. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of risks facing our company, and actual events may differ from the assumptions underlying the statements that have been made regarding anticipated events.

These risk factors should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. All written and oral forward looking statements made in connection with this report that are attributable to our company or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by applicable law or regulation.

Business Overview & Recent Developments

The Chinese Food and Drug Administration ("CFDA") promulgated Good Manufacturing Practices for Pharmaceutical Products (2010 revised version) (the "new GMP") on February 12, 2011, which became effective on March 1, 2011. The new GMP outlines the basic principles and standards for the manufacturing of pharmaceutical products and the management of quality controls in the manufacturing process in the PRC. Pursuant to those mandatory requirements, the upgrading of our two sterilization production lines - liquid injectable and dry powder injectable product lines were required to be completed by the end of 2013. As of January 1, 2014, we had suspended such two production lines due to the failure to meet the GMP upgrading deadline. However, construction of the new main building has been completed, and two new sterilization production lines have been installed, and are in testing and commissioning. We have submitted the application for new GMP certificate at the end of June 2014. We believe that the GMP upgrading will be accomplished in good quality and expect the new GMP certificate to be issued in approximately three to six months from our submission of the application.

Once our new facility receives new GMP certificate and initiates production, we will begin upgrading our current existing old sterilization facility to meet new GMP standards and therefore expand our capacity in this product category.

The national CFDA staff was originally scheduled for an on-site-review of our new facility and production lines in late July of 2014. The review is a mandatory and major step in order for the new facility and production lines to receive the new GMP certification. The purpose is to check the compliance status of the new facility and production lines. However, due to a once-in-forty-year 16 grade super typhoon Rammasun hitting Haikou on July 18, 2014, the on-site-review was postponed to mid-August. We have taken emergency measures to restore and recover post-typhoon to be ready for the upcoming CFDA's on-site-review. This typhoon caused considerable damage to our manufacturing facilities and inventory. Part of the warehouse was flooded; some machinery and equipment were destroyed while the water and electricity supply was suspended for several days causing stoppage to our production activities.

The Company's initial estimate for loss exceeds $3.25 million (RMB20 million). The Company is still in the process of assessing the damage caused by the typhoon and this estimate may be updated in the future. The Company expects minor insurance compensation as only the new plant building was insured and the damage to it was minor. The old plant has restored to the operational mode at the end of July.

The products in our pipeline have experienced delays. The CFDA has increased the approval criteria and lengthened the process which requires additional supplemental materials and trials, higher cost, and longer approval time for all our products. Started from 2013, we commenced leading formulation screening, new technology exploration and technical criteria improvement activities. We expect this new model will improve our exploration channels for the pipeline products.

The status of our pipeline products remains the same as we reported in our Annual Report on Form 10-K for the year ended December 31, 2013.

In the three months ended June 30, 2014, we continued to execute our prudent marketing strategy to implement a more stringent screening on existing and potential distributors and hospital customers in terms of the speed of payment in order to gradually improve our trade turnover, especially in terms of the collection of our accounts receivable. This strategy temporarily impacts our sales in the current period by limiting our credit sales.

Market Trends

Chinese pharmaceutical market is showing features of rapid expansion, fierce competition, low concentration, and is greatly influenced by government policies. According to Biao Dian Medical Information Co., Ltd. under the CFDA Southern Institute of Economic Research, the annual growth rate of Chinese healthcare market went beyond 20% during 2009-2011 due to the advancement of Healthcare Reform; however, this rate dropped below 20% in 2012 due to the limiting use of antibiotics and strengthening drug-price-control policies issued that year; and this rate further dropped to 15.64% in 2013 due to the impact of continuous drug-price-control policy, anti-commercial bribery, and the new GMP requirement.

A series of changes in the market position of the different categories of medication occurred along with the changes in disease spectrum and prescription habits: the decrease in the systemic use of anti-infection drugs in hospitals became the most significant trend. The market share of anti-infection drugs decreased to 15.3% in 2013, which represented a decrease of roughly 9% from 24.5% in 2007 per “China Pharmaceutical Market Development Blue Book (2014)" (the “Blue Book”), which was mainly due to a better understanding of antibiotic abuse problems, policy instruction of price cutting in antibiotics, and the release of “Clinical Use of Antibiotics Hierarchical Management Approach”. Meanwhile, the market shares of central nerve system category (CNS) and digestive category increased slightly to 14.5% and 14.1% in 2013 from 13.3% and 12.5% in 2007 per the “Blue Book”. It is notable that Traditional Chinese Medicine (TCM) had better performance compared to chemical medicines in the above two categories, which decelerate the sale increase for the latter. All the changes mentioned above had impacted most of our existing products.

In July 2014, National Health Commission of PRC rearranged “New Rural Cooperative Medical System” (NRCMS) for the year 2014, which stated the key projects this year as follows: improving funding level, promoting insurance for major diseases, adjusting payment policy, and strengthening fund supervision. It clearly stipulated that the NRCMS fund surplus accumulated this year cannot exceed 25% of the total financing. We believe that at least more than RMB13 billion of new funds will be spent in order to achieve this standard, which could effectively mitigate the adversity of "healthcare payment control". This change in industrial environment might bring positive impacts to the collection of our accounts receivables because our government-backed hospital clients could potentially be benefited from such funding from the government.

Results of Operations for the Three Months Ended June 30, 2014

Revenue

Revenue for the three months ended June 30, 2014 was $6.1 million, decreased by 24% from $8.0 million for the three months ended June 30, 2013. This was mainly due to the production suspension of our injectable production lines this year.

We suspended production of our dry powder injectable and liquid injectable products at our two old production lines as of January 1, 2014 due to the failure to meet the GMP upgrading deadline. Expecting that this shutdown would affect our sales in 2014, we had gradually increased inventory levels of certain products in advance in order to support the market demand for these products. We planned to upgrade these two production lines once our GMP facility starts operation.

Set forth below are our revenues by product categories in millions USD for the three months ended June 30, 2014 and 2013:

| Product Category | Three Months Ended June 30, | | Net Change | % Change |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| Anti-Viro/ Infection & Respiratory | $4.18 | $4.09 | $0.09 | 2% |
| CNS Cerebral & Cardio Vascular | $0.99 | $1.98 | -$0.99 | -50% |
| Digestive Diseases | $0.45 | $0.97 | -$0.51 | -53% |
| Other | $0.50 | $0.97 | -$0.46 | -48% |

“Anti-Viro/ Infection &Respiratory” category increased by $0.09 million to $4.18 million in the second quarter in 2014 compared to $4.09 million in the same period in 2013, which was mainly due to the sales increase in Cefaclor.

The most significant decrease in revenue was in our “CNS Cerebral & Cardio Vascular” product category, which generated $0.99 million in sales revenue in the second quarter of 2014 compared to $1.98million in the same period a

year ago, decreased by $0.99 million. This decrease was mainly due to having injectables as the main product in this category. The suspension of injectables production line since the beginning of this year has negatively impacted the sales performance.

Sales of the “Digestive Diseases” decreased by $0.51 million to $0.45 million in the second quarter in 2014 compared to $0.97 million in the same period in 2013, mainly due to the decrease in sales of Compound Ammonium Glycyrrhetate S and Tiopronin, which were affected primarily by market volatility.

Our “Other” category generated $0.5 million of sales in the second quarter in 2014, compared to $0.97 million in the same period last year, or a decrease of $0.46 million. This decrease was mainly due to the decrease in sales of an injectable product Vitamin B6 in this category.

In the three months ended June 30, 2014, revenue breakdown by product category showed some changes. Sales of the “Anti-Viro / Infection & Respiratory” products category represented 68% of total sales in the three months ended June 30, 2014, compared to 51% in the same period last year. The “CNS, Cerebral & Cardio Vascular” category represented 16% of total revenue in the three months ended June 30, 2014 and 25% in the same period last year. The “Digestive Diseases” category represented 7% of total revenue in three months ended June 30, 2014, remaining comparably flat as in the same period last year. The “Other” category represented 9% and 17% of revenues in three months ended June 30, 2014 and 2013, respectively.

Cost of Revenue

For the three months ended June 30, 2014, our cost of revenue was $3.7 million, or 61% of total revenue, which represented a decrease of $2.1 million from $5.8 million, or 73% of total revenue, in the second quarter of 2013. The decrease in cost of revenue in the second quarter of 2014 was mainly due to the decrease in purchasing prices of certain raw materials due to market fluctuations.

Gross Profit (Loss) and Gross Margin

Gross profit for the three months ended June 30, 2014 was $2.4 million, an increase of $0.3 million, from gross profit of $2.2 million in the same period of 2013. Our gross profit margin in the second quarter of 2014 was 39% compared to 27% in the same period of 2013. The increase in gross profit margin was mainly due to the decrease in purchasing prices of certain raw materials and the increase in selling prices of certain products due to market fluctuation during this period. Looking forward, we expect pricing pressures on most products, while our new products would support overall gross margin once they are launched. We launched Candesartan in November, 2013 and started recognizing its sales revenue in this quarter.

Selling Expenses

Our selling expenses for the three months ended June 30, 2014 were $0.6 million, compared to $0.7 million in the same period last year. Selling expenses accounted for 10% of the total revenue in the second quarter 2014 compared to 9% in the same period in 2013. Due to many adjustments in our selling processes under healthcare reform policies, despite the decrease in sales, we still require comparable personnel and expenses to support our revenue and collection of accounts receivable.

General and Administrative Expenses

Our general and administrative expenses for the three months ended June 30, 2014 were $0.4 million, a decrease of $0.2 million from $0.6 million in the same period 2013. General and administrative expenses accounted for 6% and 7% of our total revenues in the three months ended June 30, 2014 and 2013, respectively.

Research and Development Expenses

Our research and development expenses for the three months ended June 30, 2014 and 2013 were $1.9 million and $0.9 million, respectively. The change in research and development expense was mainly due to the costs related to testing of the new production lines and the payment schedule per milestone stated in the contracts.

Bad Debt Expenses

Our bad debt expenses for the three months ended June 30, 2014 and 2013 were $8.0 million and $4.8 million, respectively. The increase in bad debt expenses was mainly due to the increase in the aged accounts receivable.

In general, our normal credit or payment terms extended to customers are 90 days. This has not changed in recent years. Due to the peculiarity of the Chinese pharmaceutical market environment, deferred payments to pharmaceutical companies by state-owned hospitals and local medicine distributors are a normal phenomenon. Our customers are primarily pharmaceutical distributors who sell products to mostly government-backed hospitals. Therefore, the age of our receivables from our customers tends to be long. Although these customers typically pay after the due date of the receivables, since the majority of hospitals in China are backed by the government, management believes that the deferred payments from state-owned hospitals are secured and will eventually be collected.

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The amount of accounts receivable that were past due (or the amount of accounts receivable that were more than 90 days old) was $33.9 million and $40.1 million as of June 30, 2014 and December 31, 2013, respectively. The following table illustrates our accounts receivable aging distribution in terms of percentage of total accounts receivable as of June 30, 2014 and December 31, 2013.

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| 1 - 90 Days | 5.6 | % | 8.0 | % |
| 90 - 180 Days | 5.5 | % | 7.4 | % |
| 180 - 360 Days | 11.0 | % | 23.3 | % |
| 360 - 720 Days | 42.3 | % | 61.3 | % |
| > 720 Days | 35.6 | % | 0.0 | % |
| Total | 100.0 | % | 100.0 | % |

Our bad debt allowance estimate is currently the sum of 3.5% of accounts receivable that are less than 365 days old, 10% of accounts receivable that are between 365 days and 720 days old and 100% of accounts receivable that are greater than 720 days old.

In order to collect cash to support the construction of our new plant 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 of customers with good credit performance, while reduced the supplement to customers with poor credit record. On 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.

The management has paid high attention to this issue: it evaluated the collection conditions of the relevant departments, and further considered taking a series of targeted measures to promote collection of older-aged accounts receivable in the next quarter.

Loss from Operations

Our operating loss for the three months ended June 30, 2014 was $8.5 million, compared to operating loss of $4.8 million in the same period in 2013. The increase in operating loss was primarily due to the decrease in sales and the increase in bad debt expense and R&D expense recognized by the three months ended June 30, 2014.

Income Tax Expense (Benefit)

For the three months ended June 30, 2014 and 2013, our income tax rate was 15%. Income tax expense was $0.02 million for the three months ended June 30, 2014, and income tax benefit was $0.4 million for the three months ended June 30, 2013. The income taxes recognized for the three months ended June 30, 2014 and 2013 were related to net changes in long-term deferred tax assets and liabilities. We renewed our "National High-Tech Enterprise" status ("National HT Status") from the PRC government in the third quarter of 2013. With this designation, for the years ended December 31, 2014, 2015 and 2016, we will continue to enjoy a preferential tax rate of 15% which is notably lower than the statutory income tax rate of 25%.

Net Loss

Net loss for three months ended June 30, 2014 and 2013 were $8.6 million and $4.5 million, respectively. The increase in net loss was primarily due to the decrease in sales, the increase in bad debt expense and R&D expense recognized for the three months ended June 30, 2014.

For the three months ended June 30, 2014, loss per basic and diluted common share was $0.20, compared to loss per basic and diluted share of $0.10 for the same period in 2013.

The number of basic and diluted weighted-average outstanding shares used to calculate loss per share was 43,579,557 for the three months ended June 30, 2014 and 2013, respectively.

Six Months Ended June 30, 2014 and 2013

Revenue

For the six months ended June 30, 2014, our sales revenue decreased by $3.0 million, or 19%, to $13.2 million from the $16.8 million in the corresponding period of 2013.

Set forth below are our revenues by product categories in millions USD for each of the six months ended June 30, 2014 and 2013.

Sales Revenue by Major Category (Dollars in Millions)

| Product Category | Six Months Ended June 30, | | Net Change | % Change |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| Anti-Viro/ Infection & Respiratory | $9.15 | $8.73 | $0.42 | 5% |
| CNS Cerebral & Cardio Vascular | $1.90 | $4.10 | -$2.20 | -54% |
| Digestive Diseases | $0.77 | $1.79 | -$1.02 | -57% |
| Other | $1.41 | $1.63 | -$0.22 | -13% |

During the first half of fiscal 2014, our overall sales revenue decreased by 19% on a year-over-year basis led by the CNS Cerebral & Cardio Vascular and Digestive categories. Sales in the Anti-Viro/ Infection & Respiratory category reached $9.2 million, an increase of $0.4 million, or 5%, compared to $8.7 million in the same period last year, which was mainly due to the sales increase in Cefaclor. CNS Cerebral & Cardio Vascular category decreased by $2.2 million, or 54%, to $1.9 million from $4.1 million due to the suspension of injectable production lines. Sales in Digestive category decreased by $1.0 million, or 57%, to $0.8 million from $1.8 million, which was mainly due to the sales decrease of injectable products in this category. Sales of the “Other” category decreased by $0.2 million, or 13%, to $1.4 million from $1.6 million.

Gross Margin and Gross Profit

Gross profit for the six months ended June 30, 2014 was $5.0 million, compared to $0.6 million in the same period 2013. Gross profit margin for the six months ended June 30, 2014 and 2013 were 38% and 4% respectively. Without the effect of inventory obsolescence in the first half of 2013, management estimates that our gross profit would have been approximately $4.3 million, and gross margin would have been 26%. The increase in gross profit margin was mainly due to market fluctuation and sales price increases in certain products; in addition, more high-margin products were sold in the first half of 2014 compared to the same period a year ago.

Selling Expenses

Our selling expenses for the six months ended June 30, 2014 were $1.4 million, a decrease of 4%, compared to $1.5 million for the six months ended June 30, 2013. Selling expenses were approximately 11% of revenue in the first half of 2014 compared to 9% during the comparable period a year ago.

General Administrative Expenses

Our general and administrative expenses for the six months ended June 30, 2014 were $0.8 million, a decrease of $0.4 million, or 31%, compared to $1.2 million for the same period in 2013. This decrease was mainly due a financial consulting fee incurred in the first half of 2013 for the preparation of the construction loan facility.

Research and Development Expenses

Our research and development expenses for the six months ended June 30, 2014 and 2013 were $2.3 million and $1.0 million, respectively. The change in research and development expenses was mainly due to the costs related to testing of the new production lines and the payment schedule per milestone stated in contracts.

Bad Debt Expenses

Our bad debt expenses for the six months ended June 30, 2014 was $11.3 million, compared to $4.6 million for the same period in 2013. Please see additional discussion of bad debt and account receivables in the section above named "Bad Debt Expense".

We recognize bad debt expense per actual write-offs as well as the changes of allowance for doubtful accounts. To the extent that our current allowance for doubtful accounts is higher than that of the previous period, we recognize a bad debt expense for the difference between the two periods; when the current allowance is lower than that of the previous period, we recognize a bad debt benefit for the difference. The allowance for doubtful accounts was $24.5 million and $13.3 million as of June 30, 2014 and December 31, 2013, respectively. Therefore, the changes in the allowance for doubtful accounts during the six months ended June 30, 2014 and 2013 were as follows:

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Balance, Beginning of Period | $13,301,622 | $4,429,945 |
| Bad debt expense (benefit) | 11,340,444 | 4,752,733 |
| Foreign currency translation adjustment | -142,705 | 14,315 |
| Balance, End of Period | $24,499,361 | $9,196,993 |

Loss from Operations

Our operating loss for the six months ended June 30, 2014 was approximately $10.9 million, compared to $7.8 million for the same period in 2013, which represented a deterioration of $3.1million. The deterioration in operating income performance was primarily due to lower revenue, higher bad debt and R&D expense in the current period compared to the corresponding period one year ago.

Net Loss

Our net loss for the six months ended June 30, 2014 and 2013 was $11.0 million and $7.3 million, respectively. The deterioration in net income performance was primarily due to lower revenue, higher bad debt expense and R&D expense in the current period compared to the corresponding period one year ago.

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operations and short-term bank loans. Our cash and cash equivalents were $4.4 million, which represents 3% of our total assets as of June 30, 2014, as compared to $6.0million, which represents 4% of our total assets as of December 31, 2013. All of the $4.4 million of cash and cash equivalents at June 30, 2014 is considered to be reinvested indefinitely in Helpson and is not expected to be available for payment of dividends, for other payments to our parent company or to its shareholders. As of June 30, 2014, we had a principal balance of $4.9 million in short-term bank loans. In addition, we entered into an eight-year construction loan facility with a bank on June 21, 2013. The total loan facility amount is RMB 80,000,000 (approximately $13 million), which had been fully utilized through May 7, 2014. The cash flow generated from operating activities was used to fund the remaining construction of our GMP upgrading project.

Based on our current operating plan, management believes that our cash provided by operations will be sufficient to meet our operation capital needs and our anticipated capital expenditures, including expenditures for new formula acquisitions and GMP upgrading related construction and equipment, for the next twelve months. However, if events or circumstances change and we do not meet our operating plan as expected, we may be required to seek additional capital and/or to reduce certain discretionary spending, which could have a material adverse effect on our ability to achieve our business objectives. Notwithstanding the foregoing, when we regard market conditions are most advantageous, we may seek additional financing as necessary for expansion purposes, which may include debt and/or equity financing. There can be no assurance that any additional financing will be available on acceptable terms, if at all.

Operating Activities

Net cash provided by operating activities was $2.4 million in the six months ended June 30, 2014 compared to $3.1 million for the same period in 2013.

At June 30, 2014, our accounts receivable was $35.9 million, a decrease of $9.2 million from $45.1 million at December 31, 2013. The decrease was due to our enhanced collection efforts as well as the increased allowance for doubtful accounts at June 30, 2014 compared to December 31, 2013.

At June 30, 2014, total inventory was $21.0million, a decrease of $3.7 million from $24.7 million at December 31, 2013. This decrease was mainly due to decreased purchases of raw materials for injectable products and additional inventory needs from R&D expense for trial productions at the new facility.

Investing Activities

During the six months ended June 30, 2014, net cash used in investing activities was $4.6 million, stayed flat to the same period in 2013. The investment spending in the first half of 2014 was mainly for the GMP upgrading related construction and equipment.

Financing Activities

There was $0.6 million cash flow provided from financing activities in the six months ended June 30, 2014 and there were no financing activities for the same period in 2013. The financing activities that occurred in the first half of 2014 were related to the construction loan facility described under the first paragraph in this section entitled “Liquidity and Capital Resources”.

According to relevant PRC laws, companies registered in the PRC, including our PRC subsidiary, Helpson, are required to allocate at least ten percent (10%) of their after-tax net income, as determined under accounting standards and regulations in the PRC, to statutory surplus reserve accounts until the reserve account balances reach fifty percent (50%) of the companies’ registered capital prior to their remittance of funds out of the PRC. Allocations to these reserves and funds can only be used for specific purposes and are not transferrable to the parent company in the form of loans, advances or cash dividends. As of June 30, 2014 and December 31, 2013, the net assets of Helpson were $115,810,000 and $127,626,000, respectively. Due to the restriction on dividend distribution to overseas shareholders, the amount of Helpson’s net assets designated for general and statutory capital reserves, and thus could not be transferred to our parent company as cash dividends, were $8,182,770 and $8,182,770 (50% of registered capital) at June 30, 2014 and December 31, 2013, respectively. Since the amount that Helpson must set aside for the statutory surplus fund only accounts for 7.1% and 6.4%, respectively, of its total net assets, this reserve does not have a major impact on our liquidity. There were no allocations to the statutory surplus reserve accounts during the six months ended June 30, 2014.

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The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of the PRC. Our businesses and assets are primarily denominated in RMB. All foreign exchange transactions take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with applicable invoices and signed contracts. These currency exchange control procedures imposed by the PRC government authorities may restrict the ability of Helpson, our PRC subsidiary, to transfer its net assets to our parent company through loans, advances or cash dividends.

Off Balance Sheet Arrangements

As of June 30, 2014, we did not have any off-balance sheet arrangements.

Commitments

At June 30, 2014, we were obligated to pay laboratories and others approximately $5.42 million over approximately the next four years upon completion of the various phases of contracts to provide CFDA production approval of medical formulas.

Critical Accounting Policies

Management's discussion and analysis of its financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. Our financial statements reflect the selection and application of accounting policies which require management to make significant estimates and judgments. The discussion of our critical accounting policies contained in Note 1 to our consolidated financial statements, "Organization and Significant Accounting Policies", is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, we are not required to provide information required by this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and interim Chief Financial Officer, evaluated the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this quarterly report. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act (a) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (b) is accumulated and communicated to management, including our Chief Executive Officer and interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, our Chief Executive Officer and interim Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

Item 6. Exhibits

The exhibits required by this item are set forth in the Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHINA PHARMA HOLDINGS, INC.

Date: August 14, 2014

By: /s/ Zhilin Li
Name: Zhilin Li
Title: President and Chief Executive Officer
(principal executive officer)

Date: August 14, 2014

By: /s/ Zhilin Li
Name: Zhilin Li
Title: Interim Chief Financial Officer
(principal financial officer and principal accounting officer)

EXHIBIT INDEX

No. Description

31.1 – Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 – Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 – Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS* – XBRL Instance Document

101.SCH* – XBRL Taxonomy Extension Schema Document

101.CAL* – XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* – XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* – XBRL Taxonomy Extension Label Linkbase Document

101.PRE* – XBRL Taxonomy Extension Presentation Linkbase Document

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* Furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under these sections.