CHINA PHARMA HOLDINGS, INC.
Form 10-Q
August 14, 2015

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, 2015

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	75-1564807
(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	Smaller reporting company x
(Do not check if a smaller reporting company)	

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, 2015.

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, 2014.

The results of operations for the six-month period ended June 30, 2015 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, 2015	December 31, 2014
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	44,348,339	54,492,543
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	1,154,782	1,317,221
TOTAL ASSETS	$121,236,142	$132,081,828
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	14,446,027	14,171,838
Non-current Liabilities:		
Construction loan facility	11,496,518	11,403,438
Long-term deferred tax liability	293,634	252,707
Total Liabilities	26,236,179	25,827,983
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	20,606,573	19,771,160
Total Stockholders' Equity	94,999,963	106,253,845
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$121,236,142	$132,081,828

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

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

	For the Three Months Ended June 30,		For the Six Months 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	(55,827)	2,417,397	1,003,300	5,077,783
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	3,747,897	10,944,616	12,474,763	15,941,484
Loss from operations	(3,803,724)	(8,527,219)	(11,471,463)	(10,863,701)
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	(292,200)	(96,535)	(579,120)	(131,199)
Loss before income taxes	(4,095,924)	(8,623,754)	(12,050,583)	(10,994,900)
Income tax expense	(19,428)	(19,196)	(38,712)	(38,543)
Net loss	(4,115,352)	(8,642,950)	(12,089,295)	(11,033,443)
Other comprehensive income (loss) - foreign currency translation adjustment	348,857	153,664	835,413	(961,320)
Comprehensive loss	$(3,766,495)	$(8,489,286)	$(11,253,882)	$(11,994,763)
Loss per share:				
Basic	$(0.09)	$(0.20)	$(0.28)	$(0.25)
Diluted	$(0.09)	$(0.20)	$(0.28)	$(0.25)

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,	
	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 obsolencence 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	-

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

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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, which owns 100% of Hainan Helpson Medical & Biotechnology Co., Ltd ("Helpson"), a company 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".

On December 31, 2012, China Pharma Holdings, Inc consummated a reincorporation merger for the purpose of changing its state of incorporation from Delaware to Nevada pursuant to the terms and conditions of an Agreement and Plan of Merger dated December 27, 2012. The reincorporation merger was approved by stockholders holding the majority of the Company's outstanding shares of common stock on December 21, 2012.

The Foreign Investment Industrial Catalogue (the "Catalogue") jointly issued by China's Ministry of Commerce and the National Development and Reform Commission (the latest version is the 2015 version, effective April 10, 2015) 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 for 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 on May 25, 2005 by entering into an Equity Transfer Agreement with Helpson's three former shareholders. 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 acquired 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.

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, 2014 filed with the Commission on March 30, 2015.

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, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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 per Common Share - Basic loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is calculated to give effect to any potentially issuable dilutive common shares. There were no potentially dilutive common shares outstanding for all periods presented.

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,	
	2015	2014	2015	2014
Net loss	$(4,115,352)	$(8,642,950)	$(12,089,295)	$(11,033,443)
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	$(0.09)	$(0.20)	$(0.28)	$(0.25)
Diluted loss per share	$(0.09)	$(0.20)	$(0.28)	$(0.25)

NOTE 2 – INVENTORY

Inventory consisted of the following:

	June 30, 2015	December 31, 2014
Raw materials	$17,016,993	$18,819,570
Work in process	-	-
Finished goods	3,829,807	3,436,330
	20,846,800	22,255,900
Obsolescence reserve	(7,222,881)	(6,934,044)
Total Inventory	$13,623,919	$15,321,856

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30, 2015	December 31, 2014
Permit of land use	$462,600	$458,853

Building	11,371,775	11,279,704
Plant, machinery and equipment	28,638,117	28,358,694
Motor vehicle	258,890	150,976
Office equipment	273,348	268,521
Construction in progress	5,896	5,848
Total	41,010,626	40,522,596
Less: accumulated depreciation	(8,413,910)	(6,640,718)
Property and Equipment, net	$32,596,716	$33,881,878

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,	
	2015	2014	2015	2014
Total interest cost incurred	$322,422	$345,626	$636,197	$621,841
Interest cost capitalized	-	232,263	-	452,031
Interest expense	$322,422	$113,363	$636,197	$169,810

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 - 49
Plant, machinery and equipment	5 - 10
Motor vehicle	5 - 10
Office equipment	3-5

For the three and six months ended June 30, 2015 and 2014, depreciation expense was $857,752 and, $201,580, $1,712,237 and $403,489, 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, 2015, 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, 2015 and 2014, amortization expense relating to intangible assets was $75,785 and $96,284, $172,511 and $193,330, 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, 2015 or 2014.

As of June 30, 2015 and December 31, 2014, intangible assets consisted solely of CFDA approved medical formulas as follows:

	June 30, 2015	December 31, 2014
Gross carrying amount	$5,544,384	$5,499,494
Accumulated amortization	(4,389,602)	(4,182,273)
Net carrying amount	$1,154,782	$1,317,221

NOTE 5 – ADVANCES FOR PURCHASES OF INTANGIBLE ASSETS

In order to expand the number of medicines the Company manufactured and marketed, the Company has entered into contracts with independent laboratories for the purchase of medical formulas. Although CFDA approval had not been obtained for certain 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 under the CFDA's review also come with patents. As of June 30, 2015, 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 contracts with the Company, laboratories typically are required to complete all research and development to determine the content of the medical formula and the method to produce the generic medicine. The application for CFDA's production approval must be made by the production facility that will produce the related product. As a result, a contract typically provides that once the Company buys the medical formula from the laboratory, 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 completing the clinical study, 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 application and finally obtain the CFDA production approval. Upon approving the generic medical product, the CFDA issues a production certificate and the Company can commence the production and sales of 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 date the Company signs the medical formula contracts.

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.

As of June 30, 2015, the Company was obliged to pay laboratories and others approximately $4.2 million upon completion of various phases of contracts to provide CFDA production approval of medical formulas.

NOTE 6 – RELATED PARTY TRANSACTIONS

Total advances owing to a board member were $1,354,567 as of June 30, 2015 and December 31, 2014, respectively, 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 and is payable on December 31, 2015. Total interest expense of $3,386 and $3,386, $6,772 and $6,772 was recognized for the three and six months ended June 30, 2015 and 2014, respectively.

NOTE 7 – NOTES PAYABLE

In November 2014, the Company entered into a line of credit with a bank in the amount of RMB 30,000,000. The amounts advanced under the line of credit are due November 24, 2015. 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 6.16% (based upon 110% of the PRC government’s current short term rate of 5.6%). In addition, 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, 2015 and December 31, 2014 ($4,927,079 as of June 30, 2015 and $4,887,187 as of December 31, 2014). 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, 2015 and December 31, 2014.

NOTE 8 – CONSTRUCTION LOAN FACILITY

The Company obtained a construction loan facility in the amount of RMB 80,000,000 (approximately $13.0 million at June 30, 2015) from a construction loan facility dated June 21, 2013. The loan facility is for an eight-year term, which commenced on the initial draw-down date of July 11, 2013, 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 bears interest at 7.205% based upon 110% of the PRC government's eight-year term rate effective on the actual draw-down date, and is subjected 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. On July 10, 2015 the interest rate was adjusted to 5.94%. The loan requires interest only payments for the first two years. Beginning July 11, 2015, the balance of the principal will be due in annual installments which are due prior to July 10 of the following year over the next six years through July 11, 2021. No principal payments have been made under the facility as of the date of this report on Form 10-Q. As of June 30, 2015, the Company had no additional amounts available to it under this facility.

Principal payments required for the next five years as of June 30, 2015 are as follows:

Year	Amount
2015	1,642,360
2016	1,642,360
2017	2,463,540
2018	2,463,540
2019	2,463,540
Thereafter	2,463,540
	$ 13,138,878

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, 2015 and December 31, 2014 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.

Undistributed earnings of Helpson, the Company's foreign subsidiary, since its acquisition, amounted to approximately $56.5 million at June 30, 2015. 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%
2017	25%
Thereafter	25%

The provision for income taxes consisted of the following:

	Three months ended March 31,		Six months ended June 30,	
	2015	2014	2015	2014
Current	$-	$-	$-	$-
Deferred	(19,428)	(19,196)	(38,712)	(38,543)
Total income tax (benefit) expense	$(19,428)	$(19,196)	$(38,712)	$(38,543)

The Company has net operating loss carry forwards for PRC tax purposes of approximately $14.0 million at June 30, 2015, of which approximately $6.9 million, $4.4 million and $2.7 million is available to offset future taxable income through 2018, 2019 and 2020, respectively.

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, 2015 and December 31, 2014. Therefore, the Company has provided for a valuation allowance against its deferred tax assets of $9,655,878 and $8,952,768 as of June 30, 2015 and December 31, 2014, respectively.

The Company 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 11 – 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.

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, 2015 and December 31, 2014:

		Fair Value Measurements at Reporting Date Using		
Description	June 30, 2015	Level 1	Level 2	Level 3
Banker's acceptance notes	$ 90,330	$ -	$ 90,330	$ -
Total	$ 90,330	$ -	$ 90,330	$ -

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2014	Level 1	Level 2	Level 3
Banker's acceptance notes	$ 458,233	$ -	$ 458,233	$ -
Total	$ 458,233	$ -	$ 458,233	$ -

NOTE 12 - 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, 2015, there were no options to purchase common stock and 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, 2015 and at June 30, 2015 there was no unrecognized compensation expense related to securities granted under the Plan.

NOTE 13 – 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 14 – CONCENTRATIONS

At June 30, 2015, two customers accounted for 17.3% and 10.7% of accounts receivable. At December 31, 2014, one customer accounted for 17.7% of accounts receivable.

For the six months ended June 30, 2015 and 2014, one customer accounted for 12.7% and 15.9% of sales, respectively.

For the six months ended June 30, 2015 and 2014, purchases from one supplier accounted for 25.7% and 14.4% of raw material purchases, respectively.

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 China Food and Drug Administration ("CFDA") promulgated Good Manufacturing Practices for Pharmaceutical Products (2010 revised version) (the "New GMP Standards") on February 12, 2011, which became effective on March 1, 2011. The New GMP Standards 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 were required to be completed by the end of 2013; and the upgrading of our oral solution production lines is required to be completed by the end of 2015. In November 2014, we received new GMP certificates for the four new injectable production lines in our new factory and initiated production on those lines. In January 2015, we also received new GMP certificates for the tablet and capsule production lines in our old factories. We plan to upgrade the granule and cephalosporin production line in our old factories by the end of 2015 while the dry powder injectable production line in our old factory is expected to be upgraded next year.

The new products in our pipeline have experienced delays. The CFDA has enhanced its approval criteria and processes, resulting in additional supplemental materials and trials, higher cost, and longer approval time for certain applications across all pharmaceutical products including all of our product types. We commenced leading formulation screening, new technology exploration and technical criteria improvement activities in 2013. We expect this new model will improve our developments timelines and expand our exploration channels for our 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, 2014.

Market Trends

It is noteworthy that in 2014 there were certain state policy changes, such as the intention to release the control over drug prices, the release of restrictions on Internet drug sales, and the promotion of market-oriented reform of health care, which invigorated the traditional Chinese medicine industry. The logic behind these policies was to allow the market to play a decisive role in the allocation of resources, so as to improve operational efficiency and solve the problem of the inaccessibility of medicine and medical care that was experienced by a lot of people. The development of the pharmaceutical industry seems to fit the characteristics of the new normal Chinese economy: the growth enters into the shift period, from high-speed growth to the medium-speed growth and the development of the industry relies on reformation, restructuring and innovation.

Currently, the health insurance fund spending accounts for more than 30% of total health expenditure, which is one of the main forces driving the development of the pharmaceutical industry in recent years. However, faced with huge health care expenses, the health insurance fund shortfall problem needs to be addressed urgently. Medicare cost control has been the focus of the government. The National Development and Reform Commission issued "Promote Drug Price Reform Program (Draft)" on November 25, 2014, which intends to control medical costs through Medicare spending and bidding, form drug prices by market competition, and abolished the maximum retail price restriction of drugs commencing on January 1, 2015. Some analysts believe that, when this reform program is implemented fully, Medicare rights will be enhanced and the bargaining power of medical institutions and other relevant parties will also be improved. Consequently, our whole industry will face even more severe price pressure.

China’s pharmaceutical industrial output growth continued to slow down from the second half of 2013. In addition, the industry growth in 2014 experienced significant decline compared to the previous years due to certain medicare cost controls, and the upgrading requirements under the New GMP Standards. The Company believes that this trend will continue. Southern Medicine Economic Institute promulgated by CFDA predicts by 2015 China’s pharmaceutical industry output growth of 15%, sales growth of 13%, and profit growth of 11%. Concerning the terminal market, China’s pharmaceutical terminal market is expected to reach RMB 1.407 trillion, an increase of 12.9% in 2015.

Results of Operations for the Three Months Ended June 30, 2015

Revenue

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 in 2014 and, as a result, we missed some drug tenders in several provinces, thus affecting the sales of subsequent quarters.

Set forth below are our revenues by product categories in millions USD for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30,				
Product Category	2015	2014	Net Change	% Change	
CNS Cerebral & Cardio Vascular	0.91	0.99	-0.08	-8	%
Anti-Viro/ Infection & Respiratory	3.74	4.18	-0.44	-11	%
Digestive Diseases	0.21	0.45	-0.24	-53	%
Other	0.81	0.50	0.31	61	%

“Other” category increased by $0.31 million to $0.81 million in the second quarter of 2015 compared to $0.50 million in the same period 2014, which was mainly due to the sales increase in Vitamin B6 for Injection.

The most significant decrease in revenue was in our “Anti-Viro/ Infection & Respiratory” product category, which generated $3.74 million in sales revenue in the second quarter of 2015 compared to $4.18 million in the same period a year ago, a decrease of $0.44 million. This decrease was mainly caused by the decrease in sales of Cefaclor and Andro-grapholide due to market fluctuation.

Sales of the “Digestive Diseases” decreased by $0.24 million to $0.21 million in the second quarter in 2015 compared to $0.45 million in the same period of 2014, mainly due to the decrease in sales of Tiopronin, which were primarily affected by market volatility.

Our “CNS Cerebral & Cardio Vascular” category generated $0.91 million of sales in the second quarter in 2015, remaining fairly comparable to $0.99 million in the same period of last year.

In the three months ended June 30, 2015, revenue breakdown by product category stayed close to the condition in the same period of 2014. Sales of the "Anti-Viro / Infection & Respiratory" products category represented 68% of total sales in the three months ended June 30, 2015, compared to 66% in the same period last year. The "CNS, Cerebral & Cardio Vascular" category represented 16% of total revenue in the three months ended June 30, 2015 and 2014. The "Other" category represented 9% of total revenue in the three months ended June 30, 2015, compared to 15% in the same period last year. The "Digestive Diseases" category represented 7% and 3% of revenues in three months ended June 30, 2015 and 2014, respectively.

Cost of Revenue

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 due to the new GMP standards for quality control improvement, which lead to an increase in our production costs, such as energy consumption, and depreciation.

Inventory Obsolescence

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 during 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 Profit (Loss) and Gross Margin

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 period 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 of 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 2015.

Selling Expenses

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

General and Administrative Expenses

Our general and administrative expenses for the three months ended June 30, 2015 were $0.5 million, compared to $0.4 million in the same period 2014. General and administrative expenses accounted for 8% and 6% of our total revenues in the three months ended June 30, 2015 and 2014, respectively.

Research and Development Expenses

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.

Bad Debt Expenses

Our bad debt expense for the three months ended June 30, 2015 and 2014 were $2.1 million and $8.0 million, respectively. The decrease in bad debt expense was mainly due to the decrease in aged accounts receivable balance which hasn't been allowed against previously during the three months ended June 30, 2015 as compared to the same period of 2014.

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.

The amount of accounts receivable that were past due (or the amount of accounts receivable that were more than 90 days old) was $16.5 million and $23.6 million as of June 30, 2015 and December 31, 2014, respectively. The following table illustrates our accounts receivable aging distribution in terms of percentage of total accounts receivable as of June 30, 2015 and December 31, 2014.

	June 30, 2015		December 31, 2014	
1 - 90 Days	4.0	%	5.2	%
90 - 180 Days	3.5	%	4.5	%
180 - 360 Days	8.7	%	6.9	%
360 - 720 Days	14.4	%	29.7	%
> 720 Days	69.4	%	53.7	%
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 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.

Loss from Operations

Our operating loss for the three months ended June 30, 2015 was $3.8 million, compared to operating loss of $8.5 million in the same period of 2014. The decrease in operating loss was primarily due to the decrease in bad debt expense and partially offset by the inventory obsolescence recognized in the second quarter of 2015.

Income Tax (Benefit)

For the three months ended June 30, 2015 and 2014, our income tax rate was 15%. Income tax benefit was ($0.02) million for the three months ended June 30, 2015 and 2014. The income taxes recognized for the three months ended June 30, 2015 and 2014 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, 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, 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 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 in 2014.

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, 2015 and 2014, respectively.

Six Months Ended June 30, 2015 and 2014

Revenue

For the six months ended June 30, 2015, our sales revenue was $11.4 million, which represented a decrease of $1.9 million, or 14%, from the $13.2 million in the corresponding period of 2014.

Set forth below are our revenues by product categories in millions USD for each of the six months ended June 30, 2015 and 2014.

Sales Revenue by Major Category (Dollars in Millions)

Product Category	Six Months June 30,		Net Change	% Change
	2015	2014		
CNS Cerebral & Cardio Vascular	1.61	1.90	(0.29)	-15%
Anti-Viro/Injection & Respiratory	7.79	9.15	(1.36)	-15%
Digestive Diseases	0.36	0.77	(0.41)	-54%
Other	1.61	1.41	0.20	14%

“Other” category increased by $0.20 million to $1.61 million in the first half of 2015 compared to $1.41 million in the same period of 2014 and the increase was mainly due to the sales increase in Vitamin B6 for Injection.

The most significant decrease in revenue was in our “Anti-Viro/ Infection & Respiratory” product category, which generated $7.79 million in sales revenue in the first half of 2015, compared to $9.15million in the same period a year ago, a decrease of $1.36 million. This decrease was mainly caused by the decrease in sales of Cefaclor due to market fluctuation.

Sales of the “Digestive Diseases” decreased by $0.41 million to $0.36 million in the first half of 2015, compared to $0.77 million in the same period of 2014, mainly due to the decrease in sales of Tiopronin, which were primarily affected by market volatility.

Our “CNS Cerebral & Cardio Vascular” category generated $1.61 million of sales in the first half of 2015, compared to $1.90 million in the same period last year, which represented a decrease of $0.29 million. This decrease was mainly do the sales decrease of Candesartan due to market fluctuation.

Cost of Revenue

For the six months ended June 30, 2015, our cost of revenue was $8.9 million, or 79% of total revenue, which represented an increase of $0.7 million from $8.2 million, or 62% of total revenue, in the same period of 2014. The increase in cost of revenue in the second quarter of 2015 was mainly due to the new GMP standards for quality control improvement, which lead to an increase in our production costs, such as energy consumption and depreciation.

Inventory Obsolescence

There was $1.4 million inventory obsolescence recorded for the six months ended June 30, 2015, and no inventory obsolescence for the six months ended June 30, 2014. We started recording inventory obsolescence allowance on a quarterly basis since the first quarter of 2015 as we believe it may result in material modification to our financial statements; while previously, we tested and recorded inventory obsolescence allowance on an annual basis.

Gross Margin and Gross Profit

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.

Selling Expenses

Our selling expenses for the six months ended June 30, 2015 were $2.0 million, an increase of $0.6 million, or 38%, compared to $1.4 million for the same period 2014. This increase was mainly due to many adjustments in our selling processes under healthcare reform policies. Despite the decrease in sales, we still rely on comparable personnel and expenses to support our revenue and collection of accounts receivable. In addition, once received new GMP certificate, we are aiming to recover our market and therefore requires more sales expenses and marketing efforts.

General Administrative Expenses

Our general and administrative expenses for the six months ended June 30, 2015 were $0.9million, an increase of $0.1 million, or 15%, compared to $0.8 million for the same period 2014.

Research and Development Expenses

Our research and development expenses for the six months ended June 30, 2015 was $0.3 million, compared to $2.3 million in the same period 2014. The change in research and development expenses was mainly due to the costs related to testing of the new production lines in the first half 2014, while no such expenses incurred in this period because we have received the GMP certificates for those production lines.

Bad Debt Expenses

Our bad debt expenses for the six months ended June 30, 2015 was $9.2 million, compared to $11.3 million for the same period 2014. Please see additional discussion of bad debt and account receivables in the section above named "Bad Debt Expenses".

We recognize bad debt expenses 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 bad debt expenses for the difference between the two periods; when the current allowance is lower than that of the previous period, we recognize bad debt benefits for the difference. The allowance for doubtful accounts was $42.8 million and $33.4 million as of June 30, 2015 and December 31, 2014, respectively. Therefore, the changes in the allowance for doubtful accounts during the six months ended June 30, 2015 and 2014 were as follows:

	For the Six Months Ended June 30,	
	2015	2014
Balance, Beginning of Period	$33,350,109	13,301,622
Bad debt expenses (benefits)	9,206,214	11,340,444
Foreign currency translation adjustment	287,722	(142,705)
Balance, End of Period	$42,844,045	24,499,361

Loss from Operations

Our operating loss for the six months ended June 30, 2015 was approximately $11.5 million, compared to $10.9 million for the same period of 2014, which represented a deterioration of $0.6 million. The deterioration in operating income performance was primarily due to lower revenue and inventory obsolescence in the current period compared to the corresponding period one year ago.

Net Loss

Our net loss for the six months ended June 30, 2015 and 2014 was $12.1 million and $11.0 million, respectively, which represented a deterioration of $1.1 million. The increase in net loss was primarily due to lower revenue, inventory obsolescence and increased selling expenses recognized in the first half of 2015, which was partially offset by the decreased R&D expenses and bad debt expenses 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 $4.5 million, which represents 4% of our total assets as of June 30, 2015, as compared to $5.3 million, which represents 4% of our total assets as of December 31, 2014. All of the $4.5 million of cash and cash equivalents at June 30, 2015 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, 2015, we had a principal balance of $4.9 million in short-term bank loans. The amounts advanced under the line of credit are due on November 24, 2015. In addition, we have $1.6 million of short-term debt related to the current portion of our construction loan facility. The loan requires interest only payments for the first two years. Beginning July 11, 2015, the balance of the principal will be due in annual installments which are due prior to July 10 of the following year over the next six years through July 11, 2021. No principal payments have been made under the facility as of the date of this report on Form 10-Q. The cash flow generated from operating activities was used to fund the market-share-recovering of our current existing products.

Based on our current operating plan, management believes that our cash provided by operations will be sufficient to meet our operating 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 used by operating activities was $0.5 million in the six months ended June 30, 2015, compared to $2.4 million generated for the same period in 2014.

At June 30, 2015, our accounts receivable was $17.2 million, a decrease of $7.7 million from $24.9 million at December 31, 2014, which was due to the decrease in sales, increase in allowance for doubtful accounts and our enhanced collection efforts.

At June 30, 2015, total inventory was $13.6 million, a decrease of $1.7 million from $15.3 million at December 31, 2014. This decrease was mainly due to the inventory obsolescence recognized in the first half of 2015.

Investing Activities

During the six months ended June 30, 2015, net cash used in investing activities was $0.3 million, compared to $4.5 million in the same period 2014. The investment spending in the first half of 2015 was much lower compared to the same period in 2014 due to the GMP upgrading related construction and equipment invested in 2014.

Financing Activities

There were no financing activities for the six months ended June 30, 2015, and $0.6 million was generated from financing activities for the same period in 2014.

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, 2015 and December 31, 2014, the net assets of Helpson were $56,501,000 and $124,226,000, respectively. Due to the restriction on dividend distribution to overseas shareholders, the amount of Helpson's net assets that were 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) on June 30, 2015 and December 31, 2014, respectively. Since the amount that Helpson must set aside for the statutory surplus fund only accounts for 14.5% and 6.6%, 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, 2015.

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, 2015 we did not have any off-balance sheet arrangements.

Commitments

At June 30, 2015, we were obligated to pay laboratories and others approximately $4.2 million over 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, 2015

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

Date: August 14, 2015

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

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