CHINA PHARMA HOLDINGS, INC.
Form 10QSB
August 05, 2008

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT Of 1934

For the Quarterly Period Ended June 30, 2008

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT Of 1934

For the Transition Period from _________ to _________

Commission file number: 000-29523

China Pharma Holdings, Inc.
(Exact name of registrant as specified on its charter)

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

2nd Floor, No. 17, Jinpan Road, Haikou, Hainan Province, China
(Address of principle executive offices)

0086-898-66811730 (China)
(Registrant's telephone number, including area code)
Copies to:

Charles Law
King and Wood LLP
Suite 1175, 125 S Market Street,
San Jose, CA 95113

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 past 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 [ ]

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

As of June 30, 2008, 42,278,938 shares of China Pharma Holdings, Inc. common stock, par value $0.001 per share, were outstanding.

Transitional Small Business disclosure format: Yes [ ] No [X]

China Pharma Holdings, Inc.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

CHINA PHARMA HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30, 2008	December 31, 2007 (Restated)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,037,074	$ 1,830,335
Trade accounts receivable, less allowance for doubtful accounts of $3,661,065 and $2,440,852, respectively	27,342,048	18,572,976
Other receivables, less allowance for doubtful accounts of $94,997 and $43,908, respectively	822,776	413,596
Advances to suppliers	6,260,588	2,757,320
Inventory	14,976,919	14,448,771
Total Current Assets	56,439,405	38,022,998
Non-current Assets:		
Property and equipment, net of accumulated depreciation of $1,275,949 and $1,003,802, respectively	2,603,819	2,625,216
Intangible assets, net of accumulated amortization of $291,809 and $221,715, respectively	2,498,375	2,063,252
Advances for purchases of intangible assets	3,194,915	807,345
Deferred tax assets	375,606	187,509
Total Non-current Assets	8,672,715	5,683,322
TOTAL ASSETS	$65,112,120	$43,706,320
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$ 607,489	$ 297,299
Accrued expenses	48,813	261,301
Accrued taxes payable	1,208,254	311,009
Other payables	138,311	86,161
Advances from customers	500,773	261,583
Short-term notes payable	2,473,879	2,693,428
Total Current Liabilities	4,977,519	3,910,781
Research and development commitments	36,381	34,181
Total Liabilities	5,013,900	3,944,962
Stockholders' Equity:		
Common stock, $0.001 par value, 60,000,000 shares authorized, 42,278,938 and 37,278,938 shares issued and outstanding, respectively	42,279	37,279
Additional paid-in capital	21,062,586	11,678,606
Foreign currency translation adjustment	5,559,346	2,839,304
Retained earnings	33,434,009	25,206,169
Total Stockholders' Equity	60,098,220	39,761,358
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$65,112,120	$43,706,320

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
(unaudited)

	For the three months ended June 30,		For e
	2008	2007	2008
Revenue	$ 11,278,803	$ 8,570,256	$ 22,995,
Cost of revenue	5,325,992	4,670,685	11,235,
Gross profit	5,952,811	3,899,571	11,760,
Operating expenses:			
Selling expenses	456,630	326,147	794,
General and administrative	451,096	290,596	799,
Research and development	37,226	4,477	37,
Bad debt expense, net of recoveries	612,413	(87,149)	1,079,
Total operating expenses	1,557,365	534,071	2,710,
Income from operations	4,395,446	3,365,500	9,049,
Non-operating income (expenses):			
Interest income	5,035	11,633	5,
Interest expense	(50,440)	(58,942)	(95,
Other (expense) income	(77,450)	7,937	(77,
Total non-operating income (expense)	(122,855)	(39,372)	(168,
Income before taxes	4,272,591	3,326,128	8,881,
Income tax expense	235,292	--	653,
Net income	$ 4,037,299	$ 3,326,128	$ 8,227,
Comprehensive income - foreign currency translation adjustments	974,800	216,416	2,720,
Comprehensive income	$ 5,012,099	$ 3,542,544	$ 10,947,
Basic and Diluted Earnings Per Share	$ 0.10	$ 0.09	$ 0

Basic and Diluted Weighted Average Shares Outstanding	38,982,235	37,228,938	38,130,

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

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

	For the six months ended June 30,	
	2008	2007
Cash Flows from Operating Activities:		(Restated)
Net income	$ 8,227,840	$ 5,700,177
Depreciation and amortization	332,077	201,540
Compensation paid with warrants	120,042	--
Gain on sale of intangibles	--	(572,446)
Changes in assets and liabilities:		
Trade accounts receivable	(7,358,577)	(4,074,259)
Other receivables	(371,696)	235,008
Advances to suppliers	(3,231,357)	(2,079,529)
Inventory	390,430	(1,828,719)
Deferred tax assets	(171,030)	--
Deferred offering costs	--	60,062
Trade accounts payable	282,790	341,285
Accrued expenses	(117,176)	57,740
Accrued taxes payable	852,319	(2,715)
Other payables	(57,543)	(75,127)
Advances from customers	216,039	33,704
Net Cash from Operating Activities	(885,842)	(2,003,279)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(16,683)	(25,931)
Purchase of intangible assets	(424,170)	--
Advances for purchases of intangibles	(2,269,286)	--
Net Cash from Investing Activities	(2,710,139)	(25,931)
Cash Flows from Financing Activities:		
Proceeds from sale of common stock and warrants	9,268,938	3,797,183
Payments of short term notes payable	(381,753)	--
Net Cash Proceeds from Financing Activities	8,887,185	3,797,183

Effect of Exchange Rate Changes on Cash	(84,465)	11,691
Net Change in Cash	5,206,739	1,779,664
Cash and Cash Equivalents at Beginning of Period	1,830,335	656,441
Cash and Cash Equivalents at End of Period	$ 7,037,074	$ 2,436,105
Supplemental Cash Flow Disclosure:		
Cash paid for interest	$ 143,893	$ 115,841
Cash paid for income taxes	422,553	--

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

CHINA PHARMA HOLDINGS, INC.
UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2008

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of China Pharma Holdings, Inc. (the Company) and its subsidiaries were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company (Management) believes that the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-KSB report for the year ended December 31, 2007.

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, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

Organization - Onny Investment Limited (Onny) was incorporated in the British Virgin Islands on January 12, 2005 and was a development stage enterprise through June 15, 2005. On June 16, 2005, Onny acquired all of the outstanding shares of Hainan Helpson Medical & Biotechnology Co., Ltd, a privately held Chinese joint venture (Helpson) and emerged from the development stage.

On October 19, 2005, Onny was reorganized as a wholly owned subsidiary of China Pharma Holdings, Inc., formerly TS Electronics (the Company).

Nature of Operations - Helpson manufactures and markets several Western and Chinese medicines sold mainly to hospitals and private retailers in The People's Republic of China (PRC), through its marketing department located in Hainan Province. There are also nine other offices, with sales representatives in other provinces and cities throughout the PRC. Helpson's other operating activities include biochemical products, health products, and cosmetics.

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 Earnings per Common Share - Basic and diluted earnings per common share are computed by dividing net income by the weighted-average number of common shares outstanding. As of June 30, 2008 and 2007 potentially dilutive securities includes warrants outstanding to purchase a total of 2,652,941 and 1,252,941 shares, respectively, of Company common stock with exercise prices ranging from $2.38 to $3.50 per share. These have not been included in the

computation of earnings per share as their effect is antidilutive.

Recently Enacted Accounting Standards - In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The adoption of the portions of SFAS No. 157 that were not postponed by (FSP FIN) No. 157-2 did not have a material impact on our consolidated financial statements. The Company does not expect the adoption of the postponed portions of SFAS No. 157 to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements, consolidated net income shall be adjusted to include the net income attributed to the non-controlling interest and consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the non-controlling interest. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. SFAS No. 141(R) and SFAS No. 160 are not expected to have a material impact on our results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities", an amendment of SFAS No. 133. SFAS 161 applies to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133 and related hedged items accounted for under SFAS 133. SFAS 161 requires entities to provide greater transparency through additional disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. SFAS 161 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2008. The Company does not expect SFAS 161 to have a material impact on its results of operations or financial position.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 will provide framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS 162 will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411. The Company does not

expect the adoption of SFAS 162 will have a material impact on its financial condition or results of operation.

Restatement of Financial Statements - Subsequent to March 2008, the Company realized that the December 31, 2007 consolidated financial statements needed to be revised to correct an overstatement of advances paid to suppliers in amount of $ 724,628, an overstatement of other receivables in amount of $ 82,717, and an understatement of advance for purchase of intangible assets in the amount of $ 807,345. The Company concluded that advances made for purchase of intangible assets should be treated as a long-term asset. This correction was not considered material in accordance with SAB 108 for the year ended December 31, 2007 but is considered significant. As a result, the Company corrected the financial statements for December 31, 2007. The corrected consolidated balance sheet is included in these financial statements. The correction of the December 31, 2007 financial statements had no effect on the previously reported net income. The effect of the restatement was as follows:

	Reported	Restatement	As Res
Considated Balance sheet as of December 31,2007			
Other Receivables	$ 496,313	$ (82,717)	$ 413
Advances to suppliers	3,481,948	(724,628)	2,757
Total Current Assets	38,830,343	(807,345)	38,022
Advances for purchase of intangible assets	--	807,345	807
Total Assets	$ 43,706,320	$ --	43,706

Considated Statement of Cash Flows
For the year ended December 31,2007

Other receivables	$ (111,660)	$ 79,426	$ (32
Advances to suppliers	(1,028,119)	(853,332)	1,881
Net Cash provided by Operating Activities	2,801,898	(773,906)	2,027
Advances for purchase of intangible assets	--	773,906	773
Net Cash used in Investing Activities	(1,479,531)	773,906	(705
Net Change in Cash	1,173,894	$ --	$ 1,173

NOTE 2 - INVENTORY

Inventory consisted of the following:

	June 30, 2008	December 31, 2007
Raw materials	$10,509,311	$12,521,536
Work in progress	--	60,404
Finished goods	4,467,608	1,866,831
Total Inventory	$14,976,919	$14,448,771

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

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	June 30, 2008	December 31, 2007
Permit of land use	$ 409,889	$ 385,102
Building	1,866,413	1,753,547
Plant, machinery and equipment	1,456,892	1,341,996
Motor vehicle	45,799	37,193
Office equipment	100,775	88,210
Construction in progress	--	22,970
Total	3,879,768	3,629,018
Less: accumulated depreciation	(1,275,949)	(1,003,802)
Property and Equipment, net	$ 2,603,819	$ 2,625,216

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	5

For the six months ended June 30, 2008 and 2007, depreciation expense was $201,645 and $187,957, respectively.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets represent the costs on patents, trademarks, licenses, techniques and formulas. Intangible assets have a weighted-average remaining useful life of approximately 9.0 years. Amortization of intangible assets was $130,432 and $13,583 for the six months ended June 30, 2008 and 2007, respectively.

In January 2007, the Company entered into an agreement to acquire a certain pharmaceutical formula from an unrelated party for cash for an aggregate purchase price of $424,170. This has been recorded under the caption Intangible assets in the accompanying balance sheet as of June 30, 2008.

NOTE 5 - DEBT

Short Term Notes Payable -On July 13, 2007, the Company entered into a new line of credit with the bank collateralized by certain land use rights, machinery and equipment. The outstanding advances made under the line of credit were $2,473,879 and $2,324,278 at June 30, 2008 and December 31, 2007, respectively. The line of credit was renewed during the first quarter of 2008 with due dates of August and September of 2008 and bears interest payable monthly at the rate of 7.84%.

Short Term Notes Payable to Former Shareholders - In January 2006, the Company converted its dividend payable of $4,402,147 into short-term notes bearing interest at a rate of 2.25% per annum. The final principal balance of $369,150 was paid in January, 2008. The accrued interest of $213,545 was paid during the second quarter of 2008.

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NOTE 6 - INCOME TAXES

The Company accounts for its income taxes in accordance with SFAS No. 109, which requires recognition of deferred tax assets and liabilities and their respective tax bases and any tax credit carry forwards available. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Undistributed earnings of the Company's foreign subsidiary since acquisition amounted to approximately $31 million at June 30, 2008. Those earnings, as well as the investment in the subsidiaries of approximately $17 million are considered to be indefinitely reinvested and, accordingly, no U.S. federal and 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 both U.S. income taxes (subject to 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 practical 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.

On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law, (EIT Law), and on December 6, 2007, the State Council of China issued the Implementation Regulations for the EIT Law which took effect on January 1, 2008. The EIT Law and Implementation Regulations Rules impose a unified EIT of 25% on all domestic-invested enterprises and Foreign Invested Entities, or FIEs, unless they qualify under certain limited exceptions.

The Company is located in a special region, which had a 15% corporate income tax rate before the new EIT Law. The new EIT Law abolished the preferential corporate income tax rate in the special region. However, because the Company was in existence prior to the March 16, 2007 China tax law change, it will gradually transition to the new 25% tax rate over the next five years starting on January 1, 2008. The phase-in income tax rate is 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011, and 25% for 2012 and after. Also, the Company is permitted to use their remaining tax holiday, so they will continue to have a favorable income tax rate of 50% in effect during fiscal 2008 through 2010 as determined by the PRC government and the regional tax authorities.

As a result of the above changes, starting from 2008, the Company's enterprise income tax rate will be:

Year	Enterprise Income Tax Rate
2008	9%
2009	10%
2010	11%
2011	24%
2012 and after	25%

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.

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NOTE 7 - STOCKHOLDERS' EQUITY

On May 30, 2008 the Company completed an offering of Units priced at $2.00 per Unit consisting of one share of Company common stock and a three-year warrant to purchase one-fourth of one share of Company common stock at an exercise price of $2.80 per share. The Company issued 5,000,000 shares of common stock and three-year warrants to purchase 1,250,000 shares of common stock to 17 accredited investors for gross proceeds of $10,000,000. The net proceeds, after deduction of related offering expenses of $731,062, amounted to $9,268,938. In addition, the placement agent in the transaction was issued three-year warrants to purchase 300,000 shares of common stock at an exercise price of $2.98 per share. The proceeds were allocated to the warrants issued to the investors and the placement agent based upon their fair values of $1,090,342 and $249,366, respectively and the balance of the proceeds of $8,952,511 was allocated to the shares of common stock. The fair value of the warrants, determined using the Black-Scholes Option Pricing Model, was calculated using the following assumptions: risk free interest rate of 2.93%, expected dividend yield of 0%, expected volatility of 62.9% and an expected life of 3 years.

The common shares and the shares underlying the warrants have registration rights, and the Company is required to file a registration statement including said shares with the Securities and Exchange Commission. In the event that the Company does not file a registration statement within 45 days of the closing date of the offering, or the registration statement is not declared effective within the 90 or 120 day time periods from the closing date as defined in the registration rights agreement, or if the Company fails to keep the registration statement effective, the Company will be required to pay a penalty to each investor equal to one percent (1%) of the purchase price for each 30 day period. The Company filed a registration statement with the Securities and Exchange Commission on July 11, 2008, which has not yet been declared effective. The Company has not accrued any penalty under the registration rights agreement but will evaluate any liability related to the effectiveness date of the registration statement at the end of each reporting period.

On June 24, 2008, the Company issued three-year warrants to purchase 75,000 shares of Company common stock at $2.80 per share and three-year warrants to purchase 75,000 shares of the Company's common stock at $3.60 per share to a vendor valued at $90,487. The value was recorded as general and administrative expense in the accompanying financial statements as of the date of issuance.

Also on June 24, 2008, the Company issued three-year warrants to purchase 25,000 shares of Company common stock at $3.00 per share and three-year warrants to purchase 25,000 shares of the Company's common stock at $3.50 per share to a vendor valued at $29,554. The value was recorded as general and administrative expense in the accompanying financial statements as of the date of issuance.

The fair values of the warrants issued on June 24, 2008, determined using the Black-Scholes Option Pricing Model, were calculated using the following assumptions: risk free interest rate of 3.14%, expected dividend yield of 0%, expected volatility of 61.3% and an expected life of 3 years.

The Company has outstanding warrants to purchase an aggregate of 1,202,941 shares of Company's common stock at an exercise price of $2.38 per share which expire on January 29, 2010.

NOTE 8 - CONTINGENCIES

Economic environment - Significantly 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.

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.

Item 2. Management's Discussion and Analysis or Plan of operation

The following discussion should be read in conjunction with China Pharma Inc.'s consolidated financial statements and related notes included elsewhere in this Current Report on Form 10-QSB.

This filing contains forward-looking statements. The words "anticipated", "believe", "expect", "plan", "intend", "seek", "estimate", "project", "could", "may" and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect China Pharma management's current views with respect to future events and financial performance and involve risks and uncertainties, including but not limited to changes in general economic and business conditions, changes in foreign, political, social, and economic conditions, regulatory initiatives and compliance with governmental regulations, the ability to increase market share, and various other matters, many of which are beyond China Pharma's control. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated. Consequently, all of the forward-looking statements made in this filing are qualified by these cautionary statements and there can be no assurance of the actual results or developments.

China Pharma Holdings, Inc. is a specialty bio-pharmaceutical company with Scalable GMP certified manufacturing facilities. We currently have eight different production lines which develop, manufacture, and market Western and Chinese medicines. Over the years we have developed a wide distribution network, a professional marketing team, and strong research and development ("R&D") capabilities. We have a portfolio of therapeutics that target the following areas: the central nervous system (CNS), cardiovascular system, wound recovery, and infectious diseases. Our therapeutics target market segments, both current and future, which cover high incidence and high mortality diseases with a large patient population. We also have a highly professional and experienced management team.

Strong Revenue Growth and High Margins -We have experienced a compounded, annual growth-rate of over 80% in sales of our therapeutics since 2003. For the six

months ending June 30 2008, the company generated $23 million in revenue from therapeutic sales compared to $15,804,024 over the same period in 2007, an increase of $7,191,824or 45.51%. . The gross margin achieved by our company was 51.14% of total revenue for the six months ending June 30, 2008, which is higher than the 45.55% of the corresponding period in 2007, and higher than the industry average gross margin of 34.2%. We are able to compete in the highly fragmented pharmaceutical industry through our diversified therapeutics line, cost control and strong sales network. Our experienced management team, market insights and strong R&D capabilities enable us to develop and launch new and improved generic products based on market demand.

Proven Record of Success - We have a proven track record of success. We have a portfolio of over 30 specifications of drugs that focus on the treatment of: CNS, cardiovascular, cerebrovascular, and infectious diseases. Among these two are market leaders: PuSenOK(TM) and Buflomedil hydrochloride. We were awarded the "National Key New Product" by the Ministry of Science and Technology of the People's Republic of China (PRC) with the State Administration of Taxation, Ministry of Commerce of the PRC, General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and State Environmental Protection Administration of China. We are a profitable company with a low cost, high margin business model. We are seeing a rapid growth in sales with a constant growth in income, due to our focus on the largest segments of China's pharmaceutical market. We have eight different types of modern production lines with capacity to meet future demands. In addition, our growth strategy is supported by the dynamic pharmaceutical industry.

Clear Strategy for Growth - We are part of a rapidly growing industry, in which we are the leader in generic drugs. We have created a competitive advantage through a diverse therapeutics line designed to target several specific patient groups. Our research and development (R&D) is guided by the market and we target brand drugs and new generic drugs in China. The R&D covers a variety of diseases, but focuses on high incidence and high mortality diseases in China, which need more effective treatment. In an attempt to remain a leading player in the market, we target off-patent drugs or drugs about to be off-patent with cumulative global sales of over $1 billion. We have 9 drugs on track to launch, including a new anti-drug-resistance antibiotic which has already entered the State Food and Drug Administration, PRC (SFDA) technical evaluation. We also have three drugs which are waiting for the SFDA's production approval.

I. Summary on 6 months ended June 30, 2008

For the six months ending June 30, 2008, the Company's total revenue increased by over 45.51% to a record high of $23 million, compared to $15.8 million for the six months ending June 30, 2007. This rapid growth was due to sales of new products, increased sales of existing products, increased promotion of sales, and widened distribution channels. This is consistent with China Pharma's strategy of launching new products in an increasingly competitive market and exploring potential domestic markets.

The financial performance for the six months ending June 30, 2008 was improved compared to the six months ending June 30, 2007. Gross profit increased 63.37% to $11.76 million and net income, not including foreign currency translation adjustment, increased 44.34% to $8.23 million. This growth was attributable to the development of new product processes and new marketing activities.

For the six months ending June 30, 2008, earnings per common share increased 46.67% to $0.22 per share compared to $0.15 per share for the six months ending June 30, 2007. China Pharma is working closely with various pharmaceutical research institutions to develop more products to meet customers' needs. Our focus is to create a steady increase in revenue. We have seen in the past that a successful strategy is the key to company operation. Our strategy of continued research and penetration into the pharmaceutical market is essential to our success.

We have also enhanced internal controls for accounting and reporting. In the near future, we will develop a more systematic and continuous internal control system for the long-term development of the company and the benefit of our stakeholders and prospective investors.

II. Business Overview

We are primarily engaged in the research, development, manufacturing, and marketing of pharmaceutical and nutritional supplements. During 2007, we launched two new products, Alginic Sodium Diester and Granisetron hydrochloride. In addition, we launched a new product Bumetanide in 2008.

We plan to expand our biotechnology product portfolio. Based on the foundation established by some of our widely recognized medicine labels such as Neurotrophic peptide, we have offered and will continue to offer a variety of biological medicines. Those products, including the injected hepatocyte growth-promoting factors, are expected to fuel additional growth in revenues beyond what Neurotrophic peptide has provided.

One of our products, Buflomedil Hydrochloride (which includes the raw material, the injectable form of the product and tablet form) has received the following recognitions, awards and designations:

- The key technology project in Hainan in 2003 by Haikou Municipality.

- The "National Key New Products" certificate in 2003 by the State Science and Technology Department, State Taxation Bureau, Ministry of Commerce, State Bureau of Quality Supervision, Inspection and Quarantine, and State Environmental Protection Bureau.

- The "Best Commercialized Technology" award in Hainan in 2004 by Hainan Scientific and Technological Result Examination Committee.

In 2003, we attained GMP authentication and the award of "Best Enterprise for Supporting SARS Medicine" awarded by Hainan Food and Drug Administration. We have an extensive distribution network with 16 sales offices and approximately 680 proxy agents covering 30 provinces, municipalities, and autonomous regions around China. Our main market channels are GSP certified medical companies which directly distribute to hospitals and the final market.

Onny Investment Limited ("Onny") was incorporated in the British Virgin Islands on January 12, 2005 and was a development stage enterprise through June 15, 2005. On June 16, 2005, Onny acquired all of the outstanding shares of Hainan Helpson Medical & Biotechnology Co., Ltd, a privately held Chinese joint venture (Helpson) and emerged from the development stage. On October 19, 2005, Onny was reorganized as a wholly owned subsidiary of China Pharma Holdings, Inc. formerly TS Electronics, Inc. ("the Company").

Furthermore, On May 30, 2008 the Company completed an offering and issued five million shares of common stock at a purchase price of $2.00 per share, and three-year warrants to purchase an aggregate of 1.25 million shares of the Company's common stock at an exercise price of $2.80 per share. Net proceeds from the offering of approximately $9.3 million are expected to be used for the expansion of the Company's existing product line, sales and marketing, and general working capital purposes.

III. Trend in the Market

Studies show that due to the expansion and aging of the world's population, an increasing number of people have age-related diseases, such as cancer, Alzheimer's disease, diabetes, and heart disease. These diseases have already become prevalent, particularly in developed areas. In a growing and aging population, people need to find more effective methods of treatment.

The main factors driving the growth in market demand of China's pharmaceutical industry include economic growth, improved awareness of self-health care, the aging and the continued urban migration of the population and the start of a complete reform of the health system which has greatly improved the accessibility to and desire for medical care. China's increased demand for the medical industry in the future will maintain rapid growth. According to the forecasts of IMS, China will become the seventh largest pharmaceutical market in the world in 2009 and will jump to the second largest after the U.S.A. in 2020, with a market capacity of US$220 billion.

We view this market trend as an opportunity. However, the best way to take advantage of this opportunity is to identify our business risks beforehand. Generally speaking, there are three areas of risk:

o External Risk

In recent years, the Chinese medical system has been reformed, resulting in the State Department's establishment of a basic medical insurance system for employees. Considering the effects of the social environment, local government involvement and government policies on the pharmaceutical industry in the PRC, a large increase in sales can be expected. Competition will also be strong across the industry overall. Currently, our existing products are competitive in the market and possess growth potential. However, from a long-term perspective, some major western medicine producers are also seeking Chinese market share. This will present us with strong competition in the natural medicine market sector.

o Operation Risk

One of the major uncertainties in our industry is the purchase of raw materials. Raw materials are primarily affected by the geographical, island environment of Hainan Province. Because of high transportation costs and the need to guarantee production supply requirements, we have to store large amounts of inventory to maintain consistent production levels. In addition, part of the raw materials need to be specially ordered which further increases the need to store inventory. Finally, due to the increasing sales, we must store a large volume of finished product and packaging material.

o Foreign Currency Risk

Substantially all of our operations are conducted in the PRC. Our sales and purchases are conducted within the PRC in Chinese Renminbi. As a result, the effect of the exchange rate fluctuation would inevitably be considered to be material to our business operations.

All of our revenues and expenses are accounted for in Renminbi (RMB). However, we use the United States Dollar (USD) for financial reporting purposes. Conversion of Renminbi into foreign currencies is regulated by the People's Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of the Renminbi, there can be no assurance that such exchange rate will not become volatile again or that the Renminbi will not devalue significantly against the USD. Exchange rate fluctuations may adversely affect the value, in USD terms, of our net assets and income derived from its operations in the PRC.

IV Analysis for the three months ended June 30, 2008

The following table presents the operations of the Company for the three months ended June 30, 2007 and June 30, 2006; both are given in USD.

CHINA PHARMA HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(unaudited)

	For the three months ended June 30,		
	2008	2007	Changes
Revenue	11,278,803	8,570,256	2,708,547
Cost of revenue	5,325,992	4,670,685	655,307
Gross profit	5,952,811	3,899,571	2,053,240
Operating expenses:			
Selling expenses	456,630	326,147	130,483
General and administrative	451,096	290,596	160,500
Research and development	37,226	4,477	32,749
Bad debt expense, net of recoveries	612,413	(87,149)	699,562
Total operating expenses	1,557,365	534,071	1,023,294
Income from operations	4,395,446	3,365,500	1,029,946
Non-operating income (expenses):			
Interest income	5,035	11,633	(6,598
Interest expense	(50,440)	(58,942)	8,502
Other (expense) income	(77,450)	7,937	(85,387
Total non-operating income (expense)	(122,855)	(39,372)	(83,483
Income before taxes	4,272,591	3,326,128	946,463

Income tax expense	235,292	--	235,292
Net income	4,037,299	3,326,128	$ 711,171

Comprehensive income - foreign currency translation adjustments	974,800	216,416	758,384
Comprehensive income	5,012,099	3,542,544	$ 1,469,555
Basic and Diluted Earnings Per Share	$ 0.10	$ 0.09	0.01
Basic and Diluted Weighted Average Shares Outstanding	38,982,235	37,228,938	1,753,297

Revenue

We generated approximately $11.28 million revenue for the three months ending June 30, 2008, an increase of $2.71 million, which means a 31.60% increase compared to $8.57 million of the corresponding period in 2007. This increase was primarily due to the following elements. Although the world economy fluctuated due to energy problems and Sub-prime Mortgages, the medicine industry was less sensitive than other industries. Furthermore, our outputs have met the increased medicine market demand. We are increasing our marketing efforts for our products and have widened our distribution channels. In the second quarter of 2008, PuSen OK continued rapid growth. It contributed $1.88 million, accounting for approximately 16.64% of total revenue, an increase of 84%, which means $550,503, compared to the same period in 2007. As a flagship product, PuSen OK is the generic version of Aleve-D(R) and the most effective non-drowsy 12-hour cold medicine. It is indicated to reduce nasal congestion, relieve pain and reduce fever, etc. In addition, sales of some of our older products have increased: Ozagrel Sodium for injection contributed $1,069,766, or 9.52% of the revenue, with an increase of $391,406, or 57.7% compared to the same period of 2007; Cerebroprotein Hydroloysate Injection for injection contributed $860,769, or 7.64% of the revenue. Furthermore, due to the increased recognition and acceptance by the customers of products launched last year, sales of Granisetron Hydrochloride Injection and Alginic Sodium Diester Injection increased to $629,931 and $585,335 respectively, and contributed 10.77% of the revenue together. Another aspect is the recent reforms of the whole pharmaceutical industry in China implemented by the Chinese government, which have led to greater transparency and a more formalized system. Our distribution network covers 30 of the 32 provinces, municipalities and autonomous regions in China. In addition, we believe our improved production capacity will enhance the growth of our existing and newly launched products.

Cost of Revenue

Cost of revenue for the three months ending June 30, 2008, was approximately $5.33 million or 47.22% of total revenue, compared to the corresponding period of 2007, which was $4.67 million or 54.50% of total revenue. The increased cost of revenue was primarily due to the increased revenue for the three months ending June 30, 2008.

Gross Profit

Gross Profit for the three months ending June 30, 2008 was $5.95 million, and accounted for 52.78% of total revenue. It has increased by 52.65%, or $2.05 million, compared to 3.9million or 45.50% of total revenue of the second quarter of 2007. The increased sales in new products and high margin products result in the substantial increase in gross profit.

Selling Expense

The selling expense of the second quarter of 2008 has increased to $0.46 million, an increase of $0.13 million, or 40.01%, compared to $0.33 million of the second quarter of 2007. In line with the growth in revenue, we have invested more in the expanding of our distribution channels and marketing of our products, which has increased selling expenses.

G & A Expenses

The general and administrative expenses of the three months ending June 30, 2008 has increased to $0.45 million, an increase of $0.16 million, or 55.23%, compared to $0.29 million of the same period of 2007. This increase mainly results from the $0.12 million influence of the warrants issued to our IR firm and financial consultancy company according to the requirements of GAAP and SEC. In addition, increases in the cost of consumables as well as the expansion of business scale have pushed the increase of G&A expense.

Allowance for Bad Debts

The allowance for bad debt for the three months ending June 30, 2008 has increased to $0.61 million from minus $0.09million of the same period of 2007. This is mainly because the proportion of long term bad debts collected in the second quarter 2008 is less than that of the second quarter 2007. During the normal course of business, we give unsecured credit to our customers. We record an allowance for bad debts based on age of outstanding accounts receivables at the end of the period in accordance with generally accepted accounting principles in the PRC. The percentage of a trade receivable that is deemed doubtful is as follows: 100% after 720 days; 50 % after 360 days; and 7.5% up to 360 days. During the 15 years of operating history, the company has never had any uncollected receivables.

As to the peculiarity of the Chinese pharmaceutical environment, defaults in payments to pharmaceutical companies by state owned hospitals are a normal phenomenon. Over 90% of our drugs are sold to state owned hospitals, the greater our business with the hospital, the more payments are defaulted, although in actual fact, all the defaulted payments are eventually paid, it is only a matter of time.

Income from Operation

Income from Operation of the 2nd quarter of 2008 reached $4.4 million, an increase of 30.60%, or $1.03 million compared to the same period of 2007. This increase was primarily caused by the growth of revenue and gross profit in the three months ending June 30, 2008.

Other (Expense) Income

In the three months ending June 30, 2008, Other income decreased to minus $77,450, a decrease of $85,387 compared to the same period of 2007. This is mainly due to the donation of medicine to the Sichuan Earthquake in May 2008. ii

Income Tax Expense

Income tax expense for the three months ending June 30, 2008 was $235,292, or 2.09% of revenue, while the company did not have any income tax in the corresponding period in 2007. We have been granted a `tax holiday' granting a favorable rate of 50% of the tax rates. This year we pay our tax at the rate of 9%.

Net Income

The net income as of the 2nd quarter of 2008, excluding the effect of foreign exchange transactions, was approximately $4.04 million, which is $0.71 million higher than that of the 2nd quarter of 2007, approximately $3.33 million. It has increased by 21.32%.

V Analysis for the six months ended June 30, 2008

The following table presents the operations of the Company for the six months ending June 30, 2007 and June 30, 2006; both are given in USD.

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

	For the six months ended June 30,		
	2008	2007	Change
Revenue	22,995,848	15,804,024	7,191,824
Cost of revenue	11,235,760	8,605,524	2,630,236
Gross profit	11,760,088	7,198,500	4,561,588
Operating expenses:			
Selling expenses	794,422	474,030	320,392
General and administrative	799,489	575,079	224,410
Research and development	37,226	--	37,226
Bad debt expense, net of recoveries	1,079,813	934,058	145,755
Total operating expenses	2,710,950	1,983,167	727,783
Income from operations	9,049,138	5,215,333	3,833,805
Non-operating income (expenses):			

Interest income	5,035	25,408	(20,373
Interest expense	(95,713)	(115,841)	20,128
Other (expense) income	(77,450)	575,277	(652,727
Total non-operating income (expense)	(168,128)	484,844	(652,972
Income before taxes	8,881,010	5,700,177	3,180,833
Income tax expense	653,170	--	653,170
Net income	8,227,840	5,700,177	2,527,663

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Comprehensive income - foreign currency translation adjustments	2,720,042	651,683	2,068,359
Comprehensive income	10,947,882	6,351,860	4,596,022
Basic and Diluted Earnings Per Share	$ 0.22	$ 0.15	0.06
Basic and Diluted Weighted Average Shares Outstanding	38,130,586	36,785,909	1,344,677

Revenue

The amount of revenue was approximately $23million for the six months ending June 30, 2008; this represents an increase of 45.51% or $7.2million compared to approximately $15.8 million for the same period in 2007. Satisfying the market demand, PuSen OK contributed $3.77 million, accounting for approximately 16.60% of total revenue. In addition, in the six months ending June 30, 2008, Buflomedil and Cerebroprotein contributed $2.39 million or 10.39% of total revenue and $1.71 million or 7.42% of total revenue respectively, an increase of 78.06% and 83.20% compared to the same period of 2007. The other older products also realized different degrees of growth. Furthermore, due to increased recognition by the customers, sales of Granisetron Hydrochloride Injection and Alginic Sodium Diester Injection both launched in 2007 continued to grow, and together contributed 10.76% of the revenue

Cost of Revenue

Cost of revenue for the six months ending June 30, 2008 was approximately 11.24 million or 48.86% of total revenue, compared to approximately 8.61 million or 54.45% of total revenue, for the six months ending June 30, 2007. The cost of revenue in 2008 has increased by 30.56%. The increased cost of revenue was primarily due to the increased revenue for the six months ending June 30, 2008.The absolute value of the cost of revenue increased in line with the revenue increase, but the proportion of cost of revenue, to revenue decreased.

Gross Profit

Compared to the gross profits of approximately $7.2 million or 45.55% for the first half year ending June 30, 2007, the gross margin for the six months ending June 30, 2008 has increased by 63.37% or approximately $4.56 million to $11.76 million or 51.14% for the corresponding period in 2008. The increased sales in new products and high margin products result in the substantial increase in gross profit.

Selling Expense

Selling price for the six months ending June 30, 2008 was $794,422, or 3.45% of total revenue, which has increased by 67.59% compared to the $474,030, or 3.00% of revenue, for the corresponding period of 2007. The strengthening in sales and the increase in sales force resulted in the increase in selling expense.

G&A Expense

G&A expense has increased from approximately $0.58 million for the six months ending June 30, 2007 to approximately $0.8 million for the six months ending

June 30, 2008. This increase mainly results from the $0.12 million influence of the warrants issued to our IR firm and financial consultancy company according to the requirements of GAAP and SEC. In addition, inflation as well as the expansion of business scale have pushed the increase of G&A expense.

Allowance for Bad Debts

The allowance for bad debt for the six months ending June 30, 2008 has increased to $1.08 million from $0.93 million of the same period of 2007. This is mainly due to the absolute value of accounts receivable increasing in line with the increased revenue. We are exploring amendments to the product portfolio structure as well as discovering new sales channels and clients in order to reduce the high A/R and long DSO.

Income from Operations

Income from operations has increased by approximately $3.83 million, to approximately 9.05 million, or 39.35% of the revenue, which is an increase of 73.51% compared to $5.22 million, or 33% of the revenue for the six months ending June 30, 2007. This increase was primarily caused by the dramatic growth of revenue and gross profit in the six months ending June 30, 2008.

Income Tax expense

The income tax for the three months ending June 30, 2008 was $653,170, or 2.84% of the total revenue. We have been granted a `tax holiday' granting a favorable rate of 50% of the tax rates. This year we pay our tax at the rate of 9%.

Net Income

The net income as of the first half year of 2008, excluding the effect of foreign exchange transactions, was approximately $8.23 million, which was higher than that of the corresponding period of 2007, approximately $5.7 million. It has increased by 44.34% or $2.53 million. Based on the analysis above, the increase in net income was mainly due to the large increases in revenue and gross margin.

VI Analysis of the Financial Position

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

	For the six months ended June 30,	
	2008	2007
		(Restated)
Cash Flows from Operating Activities:		
Net income	8,227,840	5,700,177
Depreciation and amortization	332,077	201,540
Compensation paid with warrants	120,042	--
Gain on sale of intangibles	--	(572,446)

Changes in assets and liabilities:		
Trade accounts receivable	(7,358,577)	(4,074,259)
Other receivables	(371,696)	235,008
Advances to suppliers	(3,231,357)	(2,079,529)
Inventory	390,430	(1,828,719)
Deferred tax assets	(171,030)	--
Deferred offering costs	--	60,062
Trade accounts payable	282,790	341,285
Accrued expenses	(117,176)	57,740
Accrued taxes payable	852,319	(2,715)
Other payables	(57,543)	(75,127)
Advances from customers	216,039	33,704
Net Cash from Operating Activities	(885,842)	(2,003,279)

Cash Flows from Investing Activities:

Purchase of property and equipment	(16,683)	(25,931)
Purchase of intangible assets	(424,170)	--
Advances for purchases of intangibles	(2,269,286)	--
Net Cash from Investing Activities	(2,710,139)	(25,931)
Cash Flows from Financing Activities:		
Proceeds from sale of common stock and warrants	9,268,938	3,797,183
Payments of short term notes payable	(381,753)	--
Net Cash Proceeds from Financing Activities	8,887,185	3,797,183
Effect of Exchange Rate Changes on Cash	(84,465)	11,691
Net Change in Cash	5,206,739	1,779,664
Cash and Cash Equivalents at Beginning of Period	1,830,335	656,441
Cash and Cash Equivalents at End of Period	7,037,074	2,436,105
Supplemental Cash Flow Disclosure:		
Cash paid for interest	$ 143,893	$ 115,841
Cash paid for income taxes	422,553	--

Cash and Cash Equivalent

As of June 30, 2008, we had cash and cash equivalents of $7,037,074. This represents an increase of $4,600,969 over the June 30, 2007 balance of $2,436,105; and an increase of $5,206,739 over the December 31, 2007 balance of $1,830,335. The increase in cash and cash equivalent is mainly due to the fund raising activities in this period.

During the six months ending June 30, 2008, cash flow from operating activities generated minus $885,842, an increase of $1.12 million, or 55.78%, compared to minus $2,003,279 in the same period of 2007. This increase is mainly due to strengthening the ability to collect accounts receivable.

On May 30, 2008 the Company completed an offering of Units priced at $2.00 per Unit consisting of one share of Company common stock and a three-year warrant to purchase one-fourth of one share of Company common stock at an exercise price of

$2.80 per share. The Company issued 5,000,000 shares of common stock and three-year warrants to purchase 1,250,000 shares of common stock to 17 accredited investors for gross proceeds of $10,000,000. The net proceeds, after deduction of related offering expenses of $731,062, amounted to $9,268,938. In addition, the placement agent in the transaction was issued three-year warrants to purchase 300,000 shares of common stock at an exercise price of $2.98 per share. The proceeds were allocated to the warrants issued to the investors and the placement agent based upon their fair values of $1,090,342 and $249,366, respectively, and the balance of the proceeds of $8,952,511 was allocated to the shares of common stock. The fair value of the warrants, determined using the Black-Scholes Option Pricing Model, was calculated using the following assumptions: risk free interest rate of 2.93%, expected dividend yield of 0%, expected volatility of 62.9% and an expected life of 3 years.

The common shares and the shares underlying the warrants have registration rights, and the Company is required to file a registration statement including said shares with the Securities and Exchange Commission. In the event that the Company does not file a registration statement within 45 days of the closing date of the offering, or the registration statement is not declared effective within the 90 or 120 day time periods from the closing date as defined in the registration rights agreement, or if the Company fails to keep the registration statement effective, the Company will be required to pay a penalty to each investor equal to one percent (1%) of the purchase price for each 30 day period. The Company filed a registration statement with the Securities and Exchange Commission on July 11, 2008. The Company has not accrued any penalty under the registration rights agreement but will evaluate any liability related to the effectiveness date of the registration statement at the end of each reporting period.

VII. Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements.

VIII. Commitments

At June 30, 2008, the Company had no material commitments for capital expenditures other than for those expenditures incurred in the ordinary course of business.

IX. Recently Enacted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company does not expect the adoption of SFAS No. 157 to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 159 to have a material impact on our consolidated financial statements.

In June 2007, the Emerging Issues Task Force of the FASB issued EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities", ("EITF 07-3") which is effective for fiscal years beginning after December 15, 2007. EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts will be recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is not expected to have a material impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements, consolidated net income shall be adjusted to include the net income attributed to the non-controlling interest and consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the non-controlling interest. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has not yet determined the effect on our consolidated financial statements, if any, upon adoption of SFAS No. 141(R) or SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities to require enhanced disclosures concerning the manner in which an entity uses derivatives (and the reasons it uses them), the manner in which derivatives and related hedged items are accounted for under SFAS No. 133 and interpretations thereof, and the effects that derivatives and related hedged items have on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements of fiscal years and interim periods beginning after November 15, 2008. The Company has not yet determined the effects on its consolidated financial statements, if any, that may result upon the adoption of SFAS 161.

In May 2008, The US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) published consultative documents that seek public comment on two of the eight phases of their joint project to develop an improved conceptual framework. The objective of the project is to develop an improved conceptual framework that provides a sound foundation for developing future accounting standards. Further, in June 2008, The Financial Accounting Standards Board (FASB) issued an Exposure Draft (ED) of a proposed Statement of Financial Accounting Standards, Disclosure of Certain Loss Contingencies--an amendment of FASB Statements No. 5 and 141(R). The proposed

Statement would be effective for fiscal years ending after December 15, 2008, and interim and annual periods in subsequent fiscal years. In addition, on June

06, 2008, the Financial Accounting Standards Board (FASB) issued an Exposure Draft (ED) of a proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities--an amendment of FASB Statement No. 133. The proposed Statement would require application of the amended hedging requirements for financial statements issued for fiscal years beginning after June 15, 2009, and interim periods within those fiscal years.

X. Conclusion

The overall performance during the six months ending June 30, 2008 was outstanding. As a public company in the pharmaceutical industry, we focus on product innovation. In order to create products that are innovative and tailored to the end user, we must concentrate on R&D. As a result, the Company will continue to actively pursue the development and distribution of high-quality products. The pharmaceutical industry has been called an "industry of eternal sunrise", and China Pharma forecasts that our clear growth strategy and the sustained growth in market demand will ensure our continued growth.

Item 3 - Controls and Procedures

Disclosure controls and procedures are designed to ensure that financial information is accumulated and communicated to management, including the Company's CEO and CFO in a timely manner and then processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's internal controls over disclosure and reporting procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's President, CEO and CFO. The Company has taken steps to improve our internal controls over recording and reporting which were disclosed as a material weakness in Item 8A "Controls and Procedures" of our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007 (the "2007 Form 10-KSB").

As part of this correction process, we recruited three independent directors and formed an Audit Committee in February 2008 to supervise the implementation of an Internal Audit Department and to oversee the financial reporting of the Company including direct communication with our independent auditors. There have been other changes in the Company's internal controls subsequent to our assessment to improve internal controls as indicated in the 2007 Form 10-KSB.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation

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is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceeding or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

On May 30, 2008, the Company completed an offering of Units priced at $2.00 per Unit consisting of one share of Company's common stock and a three-year warrant to purchase one-fourth of one share of Company's common stock at an exercise price of $2.80 per share. The Company issued 5,000,000 shares of common stock and three-year warrants to purchase 1,250,000 shares of common stock to 17 accredited investors for gross proceeds of $10,000,000. In addition, the placement agent in the transaction was issued three-year warrants to purchase 300,000 shares of common stock at an exercise price of $2.98 per share. The issuance was made in reliance on Section 4(2) of the Securities Act 1933 and was made without general solicitation or advertising.

On June 24, 2008, the Company issued three-year warrants to purchase 75,000 shares of Company's common stock at $2.80 per share and three-year warrants to purchase 75,000 shares of Company's common stock at $3.60 per share to FirsTrust Group, Inc. The issuance was made in reliance on Section 4(2) of the Securities Act 1933 and was made without general solicitation or advertising.

Also on June 24, 2008, the Company issued three-year warrants to purchase 25,000 shares of Company's common stock at $3.00 per share and three-year warrants to purchase 25,000 shares of Company's common stock at $3.50 per share to Hayden Communications International, Inc. The issuance was made in reliance on Section 4(2) of the Securities Act 1933 and was made without general solicitation or advertising.

Item 3 - Defaults upon Senior Securities

Not Applicable.

Item 4 - Submission of Matters to a Vote of Security Holders

None.

Item 5 - Other Information

None.

Item 6 - Exhibits

(a) Exhibits

31.1 - Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a) of the Exchange Act.

31.2 - Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a) of the Exchange Act.

32.1 - Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 - Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the

Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Pharma Holdings, Inc.

Dated: August 5, 2008

By: /s/ Zhilin Li

Zhilin Li
Chief Executive Officer,
President and Director

Dated: August 5, 2008

By: /s/ Xinhua Wu

Xinhua Wu
Chief Financial Officer,
and Director