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CHINA PHARMA HOLDINGS, INC.  
Form 10QSB  
April 30, 2008

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

FORM 10-QSB

(Mark One)

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

For the Quarterly Period Ended March 31, 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  No

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

As of March 31, 2008, 37,278,938 shares of China Pharma Holdings, Inc. common stock, par value \$0.001 per share, were outstanding.

Transitional Small Business disclosure format: Yes  No

China Pharma Holdings, Inc.

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	March 31, 2008	December 31, 2007
	-----	-----
		(Restated)
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 682,017	\$ 1,830,335
Trade accounts receivable, less allowance for doubtful accounts of \$3,019,930 and \$2,440,852, respectively	24,804,992	18,572,976
Other receivables, less allowance for doubtful accounts of \$64,230 and \$43,908, respectively	476,749	413,596
Advances to suppliers	1,568,111	2,757,320
Inventory	14,810,192	14,448,771
	-----	-----
Total Current Assets	42,342,061	38,022,998
	-----	-----
Non-current Assets:		
Property and equipment, net of accumulated depreciation of \$1,150,987 and \$1,003,802, respectively	2,636,030	2,625,216
Intangible assets, net of accumulated amortization of \$291,809 and \$221,715, respectively	2,515,356	2,063,252
Advances for purchase of intangible assets	2,801,633	807,345
Deferred tax assets	195,303	187,509
	-----	-----
Total Non-current Assets	8,148,322	5,683,322
	-----	-----
TOTAL ASSETS	\$50,490,383	\$43,706,320
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Trade accounts payable	\$ 590,722	\$ 297,299
Accrued expenses	265,008	261,301
Accrued taxes payable	1,078,850	311,009
Other payables	42,521	86,161
Advances from customers	359,646	261,583
Short-term notes payable	2,420,894	2,693,428
	-----	-----
Total Current Liabilities	4,757,641	3,910,781
	-----	-----
Research and development commitments	35,601	34,181
	-----	-----
Total Liabilities	4,793,242	3,944,962
	-----	-----
Stockholders' Equity:		
Common stock, \$0.001 par value, 60,000,000 shares authorized, 37,278,938 shares issued and outstanding	37,279	37,279
Additional paid-in capital	11,678,606	11,678,606
Foreign currency translation adjustment	4,584,546	2,839,304
Retained earnings	29,396,710	25,206,169
	-----	-----
Total Stockholders' Equity	45,697,141	39,761,358
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$50,490,383	\$43,706,320
	=====	=====

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 OPERATIONS  
 AND COMPREHENSIVE INCOME  
 (unaudited)

	For the three months ended March	
	2008	2007
Revenue	\$ 11,717,045	\$ 7,233,7
Cost of revenue	5,909,768	3,934,8
Gross profit	5,807,277	3,298,9
Operating expenses:		
Selling expenses	337,792	147,8
General and administrative	815,793	1,306,0
Total operating expenses	1,153,585	1,453,9
Income from operations	4,653,692	1,844,9
Non-operating income (expenses):		
Interest income	--	13,7
Interest expense	(45,273)	(56,8
Other income	--	572,2
Total non-operating income (expense)	(45,273)	529,0
Income before taxes	4,608,419	2,374,0
Income tax expense	417,878	--
Net income	\$ 4,190,541	\$ 2,374,0
Comprehensive income - foreign currency translation adjustments	1,745,242	216,4
Comprehensive income	\$ 5,935,783	\$ 2,590,4
Basic and Diluted Earnings Per Share	\$ 0.11	\$ 0.
Basic and Diluted Weighted Average Shares Outstanding	37,278,938	36,337,9

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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 three months ended March 31,	
	2008	2007
		(Restated)
Cash Flows from Operating Activities:		
Net income	\$ 4,190,541	\$ 2,374,039
Depreciation and amortization	162,779	100,063
Gain on sale of intangibles	--	(569,398)
Changes in assets and liabilities:		
Trade accounts receivable	(5,343,190)	(1,728,236)
Other receivables	(44,977)	(739,783)
Advances to suppliers	1,275,939	(1,095,219)
Inventory	234,072	(1,092,813)
Deferred offering costs	--	59,743
Trade accounts payable	275,053	247,713
Accrued expenses	(7,001)	27,960
Accrued taxes payable	738,767	78,756
Other payables	(46,030)	88,814
Advances from customers	85,325	6,571
Net Cash from Operating Activities	1,521,278	(2,241,790)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(6,994)	(2,360)
Proceeds from the sale of intangibles	--	38,453
Purchase of intangible assets	(418,079)	--
Advances for purchase of intangible assets	(1,918,791)	836,404
Net Cash from Investing Activities	(2,343,864)	872,497
Cash Flows from Financing Activities:		
Proceeds from sale of common stock and warrants	--	3,797,183
Payments of short term notes payable	(376,271)	--
Related party payables/receivables	--	(138,860)
Net Cash from Financing Activities	(376,271)	3,658,323
Effect of Exchange Rate Changes on Cash	50,539	5,247
Net Change in Cash	(1,148,318)	2,294,277
Cash and Cash Equivalents at Beginning of Period	1,830,335	656,441
Cash and Cash Equivalents at End of Period	\$ 682,017	\$ 2,950,718

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Supplemental Cash Flow Disclosure:

Cash paid for interest	\$ 83,515	\$ 56,899
Cash paid for income taxes	--	--

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

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CHINA PHARMA HOLDINGS, INC.  
UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2008  
(unaudited)

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 three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ended 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, Inc. (the Company).

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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 March 31, 2008 and 2007 potentially dilutive securities includes warrants outstanding to purchase a total of 1,202,941 and

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1,252,941 shares, respectively, of Company common stock at an exercise price of \$2.38 per share. These have not been included in the computation of earnings per share as their effect is anti-dilutive.

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.

Restatement of Financial Statements - Subsequent to March 2008, the Company

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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 the 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:

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	Reported -----	Restatement -----	As Restate -----
Consolidated Balance Sheet as of December 31, 2007			
Other receivables	\$ 496,313	\$ (82,717)	\$ 413,596
Advances to suppliers	3,481,948	(724,628)	2,757,320
Total Current Assets	38,830,343	(807,345)	38,022,998
Advances for purchase of intangible assets	--	807,345	807,345
	-----	-----	-----
TOTAL ASSETS	\$ 43,706,320	\$ --	\$ 43,706,320
	-----	-----	-----
Consolidated Statement of Cash Flows			
For the year ended December 31, 2007			
Other receivables	\$ (111,660)	\$ 79,426	\$ (32,234)
Advances to suppliers	(1,028,119)	(853,332)	(1,881,451)
Net Cash provided by Operating Activities	2,801,898	(773,906)	2,027,992
Advance for purchase of intangible assets	--	773,906	773,906
Net Cash used in Investing Activities	(1,479,531)	773,906	(705,625)
	-----	-----	-----
Net Change in Cash	\$ 1,173,894	\$ --	\$ 1,173,894
	-----	-----	-----

NOTE 2 - INVENTORY

Inventory consisted of the following:

	March 31, 2008 -----	December 31, 2007 -----
Raw materials	\$11,770,466	\$12,521,536
Work in progress	62,915	60,404
Finished goods	2,976,811	1,866,831
	-----	-----
Total Inventory	\$14,810,192	\$14,448,771
	-----	-----

NOTE 3 - PROPERTY AND EQUIPMENT



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Property and equipment consisted of the following:

	March 31, 2008	December 31, 2007
	-----	-----
Permit of land use	\$ 401,110	\$ 385,102
Building	1,826,439	1,753,547
Plant, machinery and equipment	1,397,780	1,341,996
Motor vehicle	44,818	37,193
Office equipment	92,945	88,210
Construction in progress	23,925	22,970
	-----	-----
Total	3,787,017	3,629,018
Less: accumulated depreciation	(1,150,987)	(1,003,802)
	-----	-----
Property and Equipment, net	\$ 2,636,030	\$ 2,625,216
	-----	-----

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

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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 three months ended March 31, 2008 and 2007, depreciation expense was \$103,203 and \$93,307, 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 9.25 years. Amortization of intangible assets was \$59,576 and \$6,756 for the three months ended March 31, 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 \$427,217. This has been recorded under the caption Intangible assets in the accompanying balance sheet as of March 31, 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 \$2,420,894 and \$2,324,278 at March 31, 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

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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 \$215,933 is still outstanding and is included in accrued liabilities.

### 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 \$26 million at March 31, 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

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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 transit 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%

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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.

### NOTE 7 - STOCKHOLDERS' EQUITY

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

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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 Holdings, 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, information regarding future operations, capital expenditures, and cash flows. Such statements reflect management's views with respect to future events and financial performance, which involve risks and uncertainties. Those risks include, but not limited to, changes in general economic and business conditions, changes in 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 our 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.

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China Pharma Holdings, Inc. is a specialty bio-pharmaceutical company with Scalable Good Manufacturing Practice ("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: central nervous system ("CNS"), cardiovascular, wound recovery, and infectious diseases. Our therapeutics has a targeted market segment, both current and future, which covers a large patient population. We also have a highly professional and experienced management team.

**Strong Revenue Growth and High Margins** -We have experienced a compound annual growth rate of over 80% in sales of our therapeutics since 2003. In the three months ended March 31, 2008, we generated \$11.72 million revenue, an increase of 61.98%, or \$4.48 million, from sales of \$7.23 million in the three months ended March 31, 2007. We achieved a gross margin of 49.56% in the first quarter of 2008, while in the first quarter of 2007, the gross margin was 45.60%, which is above the industry average gross margin of 34.20%. 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.

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**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 specifications two are market leaders: FGF and Buflomedil hydrochloride. We were awarded the "National Key New Product" by the Ministry of Science and Technology of the 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 quick growth in sales with a constant growth in income, due to our focus on the largest segment of China's pharmaceutical market. We have eight different types of modern production lines with capacity to meet future demands.

**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 segmented therapeutics line designed to target specific patient groups. Our R&D is guided by the market and we target name 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. Through September 2007, we have 10 drugs on track to launch, including a new anti-drug-resistance antibiotic which has already entered the SFDA technical evaluation. We also have three drugs which are waiting for the SFDA's production approval. Bumetanide received SFDA production approval in January 2008. It is estimated that all therapeutic products currently pending approval will contribute to the revenue.

### I. Summary

During the three months ended March 31, 2008, we maintained steady and speedy growth and excellent financial performance. Revenue has increased 61.98%, gross profit 76.04%, net income 76.52% and EPS 72.06%, compared to the three months ended March 31, 2007. For the three months ended March 31, 2008, our total

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revenue reached \$11.72 million, an increase of 61.98% from \$7.23 million in the three months ended March 31, 2007. This growth is attributable to the development of existing products and strengthening our marketing with new products which were launched after late 2006. This is in line with our strategy of launching new products while expanding into the several competitive pharmaceutical markets domestically.

Our financial performance for the first quarter of 2008 has an obvious growth compared to the first quarter of 2007. We have seen an increase in gross profit of 76.04% to \$5.81 million. Net income, without consideration of foreign currency translation adjustment, has increased by 76.52% to \$ 4.19 million in the first quarter of 2008. This is the result of the development of the new products and additional marketing activities.

For the three months ended March 31, 2008, EPS increased by 72.06%, reaching \$0.11 compared to \$0.07 for the three months ended March 31, 2007. We are working closely with various pharmaceutical research institutions to develop more functional products to meet the customers' needs. Our focus is to create a steady increase in revenue. We have seen in the past that the key to our success is to maximize the possibilities of health care industry.

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We also have adopted a modern enterprise system to enhance internal control over accounting and reporting. In the near future, we will build up more systematic and continuous internal control procedures for the long-term development and the benefit of our shareholders 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. And we are planning to launch a new product, Bumetanide, in 2008.

We plan to expand our biotechnology product series. Based on the foundation established by some of our widely recognized medicine labels such as Neurotrophicpeptide, we have launched and will continue to launch a variety of biological medicines, including the injected hepatocyte growth-promoting factors, which are expected to fuel additional growth beyond that of Neurotrophicpeptide.

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

- o The key technology project in Hainan in 2003 by Haikou Municipality.
- o 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.
- o 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. Our products have been distributed and sold to more than 29 provinces,

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sovereignties, and autonomous regions around China. We have 16 sales offices and approximately 680 proxy agents throughout the PRC. The main channels we use to deliver our products are as follows: (1) Distribution system (Proxy Agents); (2) Direct sale system to hospitals; (3) Distribution of products to end-market through local medical companies.

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").

Additionally, on February 1, 2007, we fulfilled a fund raising equity offering of units priced at \$1.70 each consisting of one share of common stock and a warrant to purchase one-half of a share of common stock at an exercise price of \$2.38 per share. We received gross proceeds in the aggregate amount of \$4,259,900. The net proceeds, after deducting the related offering expenses of

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\$462,717 amounted to \$3,797,183. In total, we issued 2,505,882 shares of common stock and issued three-year warrants to purchase an aggregate of 1,252,941 shares of common stock to 17 accredited investors. In December 2007, we received proceeds of \$119,000 upon the exercise of warrants to purchase 50,000 shares of common stock. The remaining warrants issued in conjunction with the offering to buy 1,202,941 shares of common stock have not been exercised at December 31, 2007.

### 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 rheumatoid arthritis. 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.

Patient empowerment has been a factor in high-quality healthcare. Many are better informed about the importance of health issues and medical advancement. Naturally, people today are demanding greater care and access to the latest medical procedures and medicines.

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 aspects of risks:

#### 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 social environment and the governmental policy in the pharmaceutical industry in PRC, a large increase in sales can be expected due to local government involvement in the industry. 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.

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### 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, partial 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.

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All of our revenues and expenses are accounted for in Renminbi. But 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 could be no assurance that such exchange rate will not become volatile again or that the USD will not devalue significantly against the Renminbi. 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 of financial performance for the three months ended March 31, 2008

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

For the three months ended March 31,

	2008	Percentage of Revenue	2007	Percentage of Revenue
	-----	-----	-----	-----
Revenue	\$ 11,717,045	100.00%	\$ 7,233,768	100.00%
Cost of revenue	5,909,768	50.44%	3,934,849	54.40%
	-----		-----	
Gross profit	5,807,277	49.56%	3,298,919	45.60%
	-----		-----	
Operating expenses:				
Selling expenses	337,792	2.88%	147,883	2.04%
General and administrative	815,793	6.96%	1,306,086	18.06%
	-----		-----	
Total operating expenses	1,153,585	9.85%	1,453,969	20.10%
	-----		-----	

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Income from operations	4,653,692	39.72%	1,844,950	25.50%
-----				
Non-operating income (expenses):				
Interest income	-		13,775	0.19%
Interest expense	(45,273)	-0.39%	(56,899)	-0.79%
Other income	-		572,213	7.91%
-----				
Total non-operating income (expense)	(45,273)	-0.39%	529,089	7.31%
-----				
Income before taxes	4,608,419	39.33%	2,374,039	32.82%
Income tax expense	417,878	3.57%	-	
-----				
Net income	\$ 4,190,541	35.76%	\$ 2,374,039	32.82%
-----				
Comprehensive income - foreign currency translation adjustments	1,745,242	14.89%	216,416	2.99%
-----				
Comprehensive income	\$ 5,935,783	50.66%	\$ 2,590,455	35.81%
-----				

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Basic and Diluted Earnings Per Share	\$ 0.112		\$ 0.065	
-----				
Basic and Diluted Weighted Average Shares Outstanding	37,278,938		36,337,958	
-----				

Revenues

Revenue for the three months ended March 31, 2008 is approximately \$11.72 million or an increase of 61.98% compared to \$7.23 million of the first quarter of 2007. This dramatic improvement in revenue is due to the following elements: on the demand side, in addition to the strong Chinese economy, the demands for medicine are increasing; on the supply side, our output has been expanded to meet the increased market demands. We are increasing our marketing efforts for our products and have widened our distribution channels. Our older products have been well-accepted by customers. In the first quarter of 2008, Pusen OK contributed approximately \$1.89 million of our revenue, which was 16.17% of the total net revenues, an increase of 99% or \$941 thousand when compared to the same period of 2007. The growth is mainly due to a \$5.6 million contract from a major distributor at the beginning of 2008. Also, we broadened our market channels and because of the severe snow storms that hit central and south China from middle January 2008, there was a dramatic increase of flu, cerebrovascular and cardiovascular diseases. Pusen Ok is used to temporarily relieve runny nose, watery eyes, fever, headache, soar throat, pain of arthritis, and muscular aches. In the first quarter of 2008, sales from one of our other older products, aFGF, reached \$1.34 million, an increase of 35%, compared to \$1 million of the first quarter of 2007.

Some of the other older products that have greatly increased in the three months ended March 31, 2008 are: Buflomedil Hydrochloride with an increase of 197.77%,



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Gastrodin with an increase of 69.97%, Cefaclor with an increase of 63.86%, Neurotrophicpetide with an increase of 53.95%, and Andrographolide with an increase of 23.09%. Products which had been introduced in 2006 are now in the mature stage. Revenues from these products launched in 2006 contributed approximately \$2.12 million to the total increase of revenues for this period, among which, Ozagrel contributed approximately \$865 thousand. Finally, the new products that have been introduced last year contributed approximately \$1.25 million to the total increase in revenues this year, among which Granisetron hydrochloride contributed \$759 thousand, and Alginic Sodium Diester contributed \$500 thousand to the total increase.

### Cost of Revenue

Cost of revenue for the three months ended March 31, 2008 was approximately \$5.91 million, which was 50.44% of revenue for the same period. The cost for the three months ended March 31, 2007 was \$3.93 million, which is an increase of \$1.97 million or 50.19%, this was primarily due to the increase in sales volume this year.

### Gross Profit

The gross margin for the first quarter of 2008 has reached 49.56%, gross profit for the three months ended March 31, 2008 has reached approximately \$5.80 million, which has increased by about \$2.51 million or 76.04%, when compared to the three months ended March 31, 2007 to \$3.30 million, the gross margin is 45.60%. The improved profit was due to the substantial increase in revenues and reduce in product expenses in this period.

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### Selling Expenses

Selling expenses for the three months ended March 31, 2008 have increased to about \$338 thousand or 2.88% of the total revenue, which is an increase of 128.42% from \$147 thousand or 2.04% of the total revenue for the three months as of March 31, 2007. Due to our attempt to broaden our market share further, we have invested heavily in the marketing of our products, which has increased traveling expenses, office expenses and salaries.

### General & Administrative Expenses

General and administrative expenses incurred in the three months ended March 31, 2008 are about \$816 thousand which represents approximately 6.96% of the total revenue. G&A expense has decreased by \$490,293, or 37.54% as compared to the three months ended March 31, 2007. This was mainly due to the improvement on accounts receivable collection, lower allowance for doubtful account compared to the same period in 2007, and the amount of salaries, legal services, accounting services, and investment consulting services. We have also seen an increase in intangible assets, which has increased amortization expense.

### Income from Operations

Income from operations has increased by approximately \$2.81 million to approximately \$4.65 million, which is an increase of 152.24% from the three months ended March 31, 2007. This is a combined result of the increase in sales and reduction in general and administrative expenses.

### Interest Expense

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Interest expense has decreased by \$11,626 or 20.43% to \$45,273 ended March 31, 2008. This is due to the payment of the money borrowed from the former shareholders.

### Income Tax Expense

We have accrued \$ 417,878 income tax, or 3.57% of revenue in this quarter. We have been granted a "tax holiday" granting a favorable rate of 50% of the tax rates in effect during fiscal 2008 through 2010 as determined by the PRC government and the regional tax authorities. This year we accrue our tax at the rate of 9%.

### Net Income

The net income as of March 31 2008 has increased by 1.82 million or 76.52% to \$4.19 million, compared to \$2.37million for the corresponding period of 2007. There are two reasons that contributed to the growth. One is the increase of revenue and gross profit, the other is the decrease of G&A expense.

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## V. Analysis of financial performance for the three months ended March 31, 2008

### CHINA PHARMA HOLDINGS, INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the three months ended March 31,	
	2008	2007
		(Restated)
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 4,190,541	\$ 2,374,039
Depreciation and amortization	162,779	100,063
Gain on sale of intangibles	--	(569,398)
<b>Changes in assets and liabilities:</b>		
Trade accounts receivable	(5,343,190)	(1,728,236)
Other receivables	(44,977)	(739,783)
Advances to suppliers	1,275,939	(1,095,219)
Inventory	234,072	(1,092,813)
Deferred offering costs	--	59,743
Trade accounts payable	275,053	247,713
Accrued expenses	(7,001)	27,960
Accrued taxes payable	738,767	78,756
Other payables	(46,030)	88,814
Advances from customers	85,325	6,571
<b>Net Cash from Operating Activities</b>	<b>1,521,278</b>	<b>(2,241,790)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(6,994)	(2,360)

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Proceeds from the sale of intangibles	--	38,453
Purchase of intangible assets	(418,079)	--
Advances for purchase of intangible assets	(1,918,791)	836,404
	-----	-----
Net Cash from Investing Activities	(2,343,864)	872,497
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from sale of common stock and warrants	--	3,797,183
Payments of short term notes payable	(376,271)	--
Related party payables/receivables	--	(138,860)
	-----	-----
Net Cash from Financing Activities	(376,271)	3,658,323
	-----	-----
Effect of Exchange Rate Changes on Cash	50,539	5,247
	-----	-----
Net Change in Cash	(1,148,318)	2,294,277
	-----	-----
Cash and Cash Equivalents at Beginning of Period	1,830,335	656,441
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 682,017	\$ 2,950,718
	-----	-----

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As of March 31, 2008, the cash and cash equivalents balance reached \$682,017, or 1.35% of total assets, while the amount was \$2,950,719 or 8.36% of total assets for the three months ended March 31, 2007.

Net cash from operating activities has increased by \$ 3,763,068 or 167.86% to \$1,521,278 in the three months ended March 31, 2008, compared to negative \$2,241,790 during the same time in the prior year. This improvement came from the increased net income, and an improvement on collection of trade accounts receivables.

Cash outflows from investing activities were \$2,343,864 as of March 31 2008. This is due to the purchase of intangible assets and fixed assets which cost the company \$418,079 and \$6,994 respectively, as well as advances for purchase of intangibles in the amount of \$1,918,791.

Cash used in financing activities were \$376,271 for the first quarter ended March 31 2008. The main reason is that the note to former shareholders of \$376,271 was paid off. For the same time for 2007, the cash from financing activities was \$3,658,323; this is due to the completion of an offering priced at \$1.70 per unit consisting of one share of common stock and a warrant to purchase one-half of a share of common stock at an exercise price of \$2.38 per share. We received gross proceeds in the aggregate amount of \$4,259,900. The net proceeds, after deduction of related offering expenses of \$462,717 amounted to \$3,797,183. We issued an aggregate of 2,505,882 shares of common stock and issued three-year warrants to purchase an aggregate of 1,252,941 shares of common stock to 17 accredited investors. In December 2007, we received proceeds of \$119,000 upon the exercise of warrants to purchase 50,000 shares of common stock. The remaining warrants issued in conjunction with the offering to buy 1,202,941 shares of common stock have not been exercised at December 31, 2007.

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### VII. Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements.

### VIII. 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

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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

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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.

### IX. Conclusion

The overall performance during the three months ended March 31, 2008 was outstanding. Revenue has increased by 61.98%, gross profit by 76.04%, net income by 76.52% and EPS by 72.06%, compared to the three months ended March 31, 2007.

In order to maintain our growth and profitability in the future, we must continue to focus our efforts on marketing and R&D. By distributing our product to a larger and more varied customer base, we will organically increase revenue and through massive R&D investment, we will increase our product line.

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### 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 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,

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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

None.

Item 3 - Defaults upon Senior Securities

Not Applicable.

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

None.

Item 5 - Other Information

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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: April 30, 2008

By: /s/ Zhilin Li

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Zhilin Li  
Chief Executive Officer,  
President and Director

Dated: April 30, 2008

By: /s/ Xinhua Wu

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Xinhua Wu  
Chief Financial Officer,  
and Director