CHINA PHARMA HOLDINGS, INC.
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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

For the transition period from _____ to _____

Commission File Number 001-34471

CHINA PHARMA HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada	75-1564807
(State or other jurisdiction of	(IRS Employer

incorporation or organization) Identification No.)

Second Floor, No. 17, Jinpan Road

Haikou, Hainan Province, China 570216

(Address of principal executive offices) (Zip Code)

+86- 898-6681-1730 (China)

(Issuer's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 43,579,557 shares of Common Stock, $.001 par value, were outstanding as of August 9, 2018.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

The results of operations for the six-month period ended June 30, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

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CHINA PHARMA HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$1,935,527	$2,030,214
Restricted cash	1,626,352	709,796
Banker's acceptances	19,612	39,867
Trade accounts receivable, less allowance for doubtful accounts of $18,238,248 and $18,209,734, respectively	2,367,188	2,293,120
Other receivables, less allowance for doubtful accounts of $40,069 and $40,010, respectively	188,177	162,981
Advances to suppliers	341,200	461,307
Inventory	6,377,507	6,407,155
Prepaid expenses	221,132	185,647
Total Current Assets	13,076,695	12,290,087
Advances for purchases of intangible assets	23,319,133	23,722,954
Property, plant and equipment, net	21,584,492	23,541,003
Intangible assets, net	327,759	398,856
TOTAL ASSETS	$58,308,079	$59,952,900
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$1,152,539	$1,141,138
Accrued expenses	195,046	276,368
Other payables	2,682,230	2,858,701
Advances from customers	586,282	581,132
Other payables - related parties	1,354,567	1,354,567
Current portion of construction loan facility	2,115,107	2,305,430
Bankers' acceptance notes payable	1,626,352	709,796
Total Current Liabilities	9,712,123	9,227,132
Non-current Liabilities:		
Construction loan facility	6,798,559	6,916,291
Deferred tax liability	772,331	738,175
Total Liabilities	17,283,013	16,881,598
Stockholders' Equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
	43,580	43,580

Common stock, $0.001 par value; 95,000,000 shares authorized; 43,579,557 shares and 43,579,557 shares outstanding, respectively		
Additional paid-in capital	23,590,204	23,590,204
Retained earnings	4,178,280	5,479,809
Accumulated other comprehensive income	13,213,002	13,957,709
Total Stockholders' Equity	41,025,066	43,071,302
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$58,308,079	$59,952,900

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

CHINA PHARMA HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE LOSS

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$3,173,711	$2,917,180	$6,789,395	$6,202,383
Cost of revenue	2,594,230	2,268,823	5,156,214	4,836,173
Gross profit	579,481	648,357	1,633,181	1,366,210
Operating expenses:				
Selling expenses	716,220	803,434	1,394,550	1,521,071
General and administrative expenses	353,143	611,951	845,153	1,028,677
Research and development expenses	23,674	21,450	45,887	47,510
Bad debt expense	350,847	364,989	352,681	725,052
Impairment of long term assets	-	977,980	-	977,980
Total operating expenses	1,443,884	2,779,804	2,638,271	4,300,290
Loss from operations	(864,403)	(2,131,447)	(1,005,090)	(2,934,080)
Other income (expense):				
Interest income	9,524	16,316	11,818	21,349
Interest expense	(130,580)	(142,205)	(259,682)	(281,169)
Net other expense	(121,056)	(125,889)	(247,864)	(259,820)
Loss before income taxes	(985,459)	(2,257,336)	(1,252,954)	(3,193,900)
Income tax expense	(22,590)	(30,574)	(48,575)	(60,908)
Net loss	(1,008,049)	(2,287,910)	(1,301,529)	(3,254,808)
Other comprehensive income (loss) - foreign currency translation adjustment	(2,418,783)	1,008,890	(744,707)	1,488,482
Comprehensive loss	$(3,426,832)	$(1,279,020)	$(2,046,236)	$(1,766,326)
Loss per share:				
Basic and diluted	$(0.02)	$(0.05)	$(0.03)	$(0.07)
Weighted average shares outstanding	43,579,557	43,579,557	43,579,557	43,579,557

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

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CHINA PHARMA HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	$(1,301,529)	$(3,254,808)
Depreciation and amortization	1,714,328	1,628,380
Bad debt expense	352,681	725,052
Deferred income taxes	48,575	60,908
Inventory write off	148,565	-
Impairment of long term assets	-	977,980
Changes in assets and liabilities:		
Trade accounts and other receivables	(767,978)	(6,262)
Advances to suppliers	113,520	(9,933)
Inventory	57,850	439,865
Trade accounts payable	35,235	(974,197)
Accrued taxes payable	(94,416)	(144,739)
Other payables and accrued expenses	(157,893)	(87,949)
Advances from customers	15,639	(173,692)
Prepaid expenses	(40,178)	45,817
Net Cash Provided by Operating Activities	124,399	(773,578)
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(29,982)	(51,808)
Net Cash Used in Investing Activities	(29,982)	(51,808)
Cash Flows from Financing Activity:		
Payments of construction term loan	(157,071)	(145,750)
Net Cash Used in Financing Activity	(157,071)	(145,750)
Effect of Exchange Rate Changes on Cash	(32,033)	50,900
Net (Decrease) Increase in Cash and Cash Equivalents	(94,687)	(920,236)
Cash and Cash Equivalents at Beginning of Period	2,030,214	2,665,802
Cash and Cash Equivalents at End of Period	$1,935,527	$1,745,566
Supplemental Cash Flow Information:		
Cash paid for income taxes	$-	$-
Cash paid for interest	$125,716	$410,509

Supplemental Noncash Investing and Financing Activities:

Issuance of banker's acceptances	$965,468	$1,435,381
Accounts receivable collected with banker's acceptances	268,630	227,274
Inventory purchased with banker's acceptances	288,982	210,787

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

CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

Accounting Estimates **-** The methodology used to prepare for the Company's financial statements is in conformity with the accounting principles generally accepted in the United States of America, which requires the management of the Company ("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. Therefore, actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include interest bearing and non-interest bearing bank deposits, money market accounts, and short-term banker's acceptances notes purchased with maturities of three months or less.

Restricted Cash –Restricted cash includes cash that has been deposited with a bank to satisfy obligations outstanding under banker's acceptance notes issued by the Company as discussed in Note 8.

Trade Accounts Receivable and Allowance for Doubtful Accounts – Trade accounts receivables are carried at the original invoiced amounts less an allowance for doubtful accounts. The allowances for doubtful accounts are calculated based on a detailed review of certain individual customer accounts and an estimation of the overall economic conditions affecting the Company's customer base. The Company reviews a customer's credit history before extending credit to the customer. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additions to the allowance would be required. A provision is made against accounts receivable to the extent they are considered unlikely to be collected. Charges to bad debt expense totaled $350,847 and $364,989 for the three months ended June 30, 2018 and 2017, respectively and $352,681 and $725,052 for the six months ended June 30, 2018 and 2017, respectively.

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CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

Trade accounts receivable that have been fully allowed for and determined to be uncollectible are charged against the allowance in the period the determination is made. The Company charged off uncollectible trade accounts receivable balances in the amount of $0 against the allowance for both the three and six months ended June 30, 2018 and 2017, respectively. It is common practice in the PRC for receivables to extend beyond one year. Customer balances outstanding for more than one year are allowed for at a greater rate when calculating the allowance for doubtful accounts.

Advances to Suppliers and Advances from Customers – Common practice in the PRC is to make advances to suppliers for materials and to receive advances from customers for finished products. Advances to suppliers are applied to trade accounts payable when the materials are received. Advances received from customers are applied against trade accounts receivable when finished products are sold. The Company reviews a supplier's credit history and background information before advancing a payment. If the financial condition of its suppliers were to deteriorate, resulting in an impairment of their ability to deliver goods or provide services, the Company would recognize bad debt expense in the period they are considered unlikely to be collected.

Inventory – Inventory consists of raw materials, work in process and finished goods and is stated at the lower of cost or net realizable value. Cost is determined using a weighted average. For work in process and manufactured inventories, cost consists of raw materials, direct labor and an allocated portion of the Company's production overhead. The Company writes down excess and obsolete inventory to its estimated net realizable value based upon assumptions about future demand and market conditions. For finished goods and work in process, if the estimated net realizable value for an inventory item, which is the estimated selling price in the ordinary course of business, less reasonably predicable costs to completion and disposal, is lower than its cost, the specific inventory item is written down to its estimated net realizable value. Market for raw materials is based on replacement cost. Provisions for inventory write-downs are included in cost of revenues in the consolidated statements of operations. Inventories are carried at this lower cost basis until sold or scrapped.

Valuation of Long-Lived Assets – The carrying values of long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying values may not be recoverable. When such an event occurs, the Company projects the undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of an asset will not be recovered, it is reduced by the estimated excess of the carrying value over the projected discounted cash flows estimated to be generated by the asset. There was no impairment loss recognized for the three and six months ended June 30, 2018. For the three and six months ended June 30, 2017, the Company recognized an impairment loss related

to Advances for purchases of intangible assets in the amount of $977,980 as more fully discussed in Note 5.

Property, Plant and Equipment, net – Property, plant and equipment are stated at cost. Maintenance and repairs are charged to expenses as incurred and major improvements are capitalized. Gains or losses on sale, trade-in or retirement are included in operations during the period of disposition. Depreciation relating to office equipment was included in general and administrative expenses, while all other depreciation was included in cost of revenue.

Revenue Recognition – Revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration that an entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amount of revenue that is recorded reflects the consideration that the Company expects to receive in exchange for those goods. The Company applies the following five-step model in order to determine this amount: (i) identification of the promised goods in the contract; (ii) determination of whether the promised goods are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. Once a contract is determined to be within the scope of ASC 606 at contract inception, the Company reviews the contract to determine which performance obligations the Company must deliver and which of these performance obligations are distinct. The Company recognizes as revenues the amount of the transaction price that is allocated to the respective performance obligation when the performance obligation is satisfied or as it is satisfied. Generally, the Company’s performance obligations are transferred to customers at a point in time, typically upon delivery.

For all reporting periods, the Company has not disclosed the value of unsatisfied performance obligations for all product revenue contracts with an original expected length of one year or less, which is an optional exemption that is permitted under the adoption rules.

CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

Cost of Revenues – Cost of revenues includes wages, materials, depreciation, handling charges, and other expenses associated with the manufacture and delivery of products.

Research and Development – Research and development expenditures are recorded as expenses in the period in which they occur.

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

There were no potentially dilutive common shares outstanding during the three and six months ended June 30, 2018 and 2017, respectively.

Credit Risk – The carrying amount of accounts receivable included in the balance sheet represents the Company's exposure to credit risk in relation to its financial assets. No other financial asset carries a significant exposure to credit risk. The Company performs ongoing credit evaluations of each customer's financial condition. The Company maintains allowances for doubtful accounts and such allowances in the aggregate have not exceeded Management's estimates.

The Company has its cash in bank deposits primarily at state owned banks located in the PRC. Historically, deposits in PRC banks have been secured due to the state policy of protecting depositors' interests. The PRC promulgated a Bankruptcy Law in August 2006, effective June 1, 2007, which contains provisions for the implementation of measures for the bankruptcy of PRC banks. In the event that bankruptcy laws are enacted for banks in the PRC, the Company's deposits may be at a higher risk of loss.

Interest Rate Risk – The Company is exposed to the risk arising from changing interest rates, which may affect the ability of repayment of existing debts and viability of securing future debt instruments within the PRC.

Recent Accounting Pronouncements

Recently Issued Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, a new standard on accounting for leases. The ASU introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in the current accounting guidance as well as the FASB's new revenue recognition standard. However, the ASU eliminates the use of bright-line tests in determining lease classification as required in the current guidance. The ASU also requires additional qualitative disclosures along with specific quantitative disclosures to better enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The pronouncement is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, using a modified retrospective approach. Early adoption is permitted. The Company has not completed an evaluation of the impact the pronouncement will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The pronouncement will be effective for public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements and related disclosures.

From time to time, the FASB or other standards setting bodies issue new accounting pronouncements. Updates to the FASB ASCs are communicated through issuance of ASUs. Unless otherwise discussed, the Company believes that the recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on its condensed consolidated financial statements upon adoption.

CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

NOTE 2 – INVENTORY

Inventory consisted of the following:

	June 30, 2018	December 31, 2017
Raw materials	$4,804,671	$4,733,679
Work in process	245,824	481,863
Finished goods	1,327,012	1,191,613
Total Inventory	6,377,507	6,407,155

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	June 30, 2018	December 31, 2017
Permit of land use	$425,541	$432,910
Building	9,881,716	10,052,840
Plant, machinery and equipment	27,591,919	28,044,515
Motor vehicle	324,971	330,598
Office equipment	201,602	200,974
Total	38,425,749	39,061,837
Less: accumulated depreciation	(16,841,257)	(15,520,834)
Property Plant and Equipment, net	$21,584,492	$23,541,003

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

Asset	Life - years
Permit of land use	40 - 70
Building	20 - 49
Plant, machinery and equipment	5 - 10
Motor vehicle	5 - 10
Office equipment	3-5

Depreciation relating to office equipment was included in general and administrative expenses, while all other depreciation was included in cost of revenue. For the three months ended June 30, 2018 and 2017, depreciation expense was $819,522 and $770,458, respectively. For the six months ended June 30, 2018 and 2017 depreciation expense was $1,647,471 and $1,535,072.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets represent the cost of medical formulas approved for production by the China Food and Drug Administration (“CFDA”). The Company did not obtain CFDA production approval for any medical formulas during the six months ended June 30, 2018 and 2017 and no costs were reclassified from advances to intangible assets during the six months ended June 30, 2018 and 2017, respectively.

Approved medical formulas are amortized from the date CFDA approval is obtained over their individually identifiable estimated useful life, which range from ten to thirteen years. It is at least reasonably possible that a change in the estimated useful lives of the medical formulas could occur in the near term due to changes in the demand for the drugs and medicines produced from these medical formulas. Amortization expense relating to intangible assets was $33,429 and $42,528, respectively for the three months ended June 30, 2018 and 2017 and $66,857 and $93,308 for the six months ended June 30, 2018 and 2017, respectively, and was included in the general and administrative expenses. Medical formulas typically do not have a residual value at the end of their amortization period. Medical formulas typically do not have a residual value at the end of their amortization periods.

The Company evaluates each approved medical formula for impairment at the date of CFDA approval, when indications of impairment are present and also at the date of each financial statement. The Company’s evaluation is based on an estimated undiscounted net cash flow model, which considers currently available market data for the related drug and the Company’s estimated market share. If the carrying value of the medical formula exceeds the estimated future net cash flows, an impairment loss is recognized for the excess of the carrying value over the fair value of the medical formula, which is determined by the estimated discounted future net cash flows. No impairment loss was recognized during the three and six months ended June 30, 2018 and 2017.

CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

Intangible assets consisted solely of CFDA approved medical formulas as follows:

	June 30, 2018	December 31, 2017
Gross carrying amount	$5,100,225	$5,188,547
Accumulated amortization	(4,772,466)	(4,789,691)
Net carrying amount	$327,759	$398,856

NOTE 5 – ADVANCES FOR PURCHASES OF INTANGIBLE ASSETS

In order to expand the number of medicines the Company manufactured and marketed, it entered into contracts with independent laboratories and others for the purchase of medical formulas. Although CFDA approval had not been obtained for these medical formulas at the dates of the respective contracts, the objective of the contracts was for the Company to purchase CFDA-approved medical formulas once the CFDA approval process is completed. The Company received the titles to two patents that relate to medical formulas currently in the CFDA approval process for the year ended December 31, 2013. These patents are not expired.

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

A typical CFDA approval process for the production of a generic medical product involves a number of steps that generally require three to five years to complete. If the medical formula is purchased at the point when the generic medical product receives the CFDA's approval for a clinical study, which is very typical for the Company, the clinical study that follows will usually take from one and a half to three years to complete. After completing the clinical study, the results are submitted to the CFDA and a production approval application is filed with the CFDA. In most cases, it

will take between eight to eighteen months to prepare and submit the production approval application and obtain CFDA approval. Upon approving the generic medical product, the CFDA issues a production certificate and the Company can commence the production and sales of the generic medical product. As a result of this process, CFDA approval is expected to be received in approximately two to five years from the date the Company signs the medical formula contracts.

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

During the second quarter of 2017, based on the Company's monitoring and assessment process, the Company determined that advance payments to an independent laboratory were impaired. As a result, the Company recognized an impairment loss for the advance payments made to the laboratory in the amount of $977,980. There was no impairment recognized for the three and six months ended June 30, 2018.

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

As of June 30, 2018, the Company was obligated to pay laboratories and others approximately $1.1 million upon the completion of various phases of contracts to obtain CFDA production approval of medical formulas.

NOTE 6 – RELATED PARTY TRANSACTIONS

A member of the Company's board of directors ("Board") had previously advanced the Company an aggregate amount of $1,354,567 as of June 30, 2018 and December 31, 2017 which are recorded as "Other payables – related parties" on the accompanying consolidated balance sheets. The advances bear interest at a rate of 1.0% per year. Total interest expense for the three months ended June 30, 2018 and 2017 was $3,386 and $3,386, respectively. Total interest expense for the six months ended June 30, 2018 and 2017 was $6,773 and $6,773, respectively.

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CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

NOTE 7 – BANKER'S ACCEPTANCE NOTES PAYABLE

In April 2016, the Company entered into a Banker's Acceptance Note Agreement with a bank. Pursuant to the terms of the agreement, the Company can issue banker's acceptance notes to any third party as payment of amounts owing to that third party. The Company is required to deposit with the bank an amount equal to the amounts represented by the banker's acceptance notes issued to the third parties. The amount of these deposited balances is shown as "Restricted cash" on the accompanying balance sheets as of June 30, 2018 and December 31, 2017. The maximum amount that the Company can issue under this agreement is limited to the lesser of RMB30,000,000 (approximately $4.5 million) or the amount of cash available to deposit against the banker's acceptance notes. In addition, the agreement calls for the payment of fees equal to 0.05% of the note amount to the bank. As of June 30, 2018 and December 31, 2017, the Company had outstanding banker's acceptance notes in the amount of $1,626,352 and $709,796, respectively.

NOTE 8 – CONSTRUCTION LOAN FACILITY

The Company obtained a construction loan facility, dated June 21, 2013, in the aggregate amount of RMB 80,000,000 (approximately $13 million). The loan facility is for an eight-year term, which commenced on July 11, 2013, the initial draw-down date. The proceeds of the loan were used for and are collateralized by the construction of the Company's new production facility and the included production line equipment and machinery. The loan bears interest based upon 110% of the PRC government's eight-year term rate effective on the actual draw-down date, subject to annual adjustments based on 110% of the floating rate for the same type of loan on the anniversary from the draw-down date and its subsequent anniversary dates. On July 10, 2015, 2016 and 2017 the interest rate was adjusted to 5.94%, 5.39% and 5.73%, respectively. The loan required interest only payments for the first two years. Beginning July 11, 2015, the balance of the principal was due in at least two (2) annual installments with the first annual payment being due within six month period after July 10, 2015 and the second annual payment being due July 10, 2016 and each following year over the next five years through July 11, 2022 on the identical terms as described above for 2015. The Company has made all required payments due under the loan. As of June 30, 2018, the Company had no additional amounts available to it under this facility. During the six months ended June 30, 2018, the Company made principal payments in the amount of approximately $157,000 (RMB 1,000,000). During July of 2018, the Company made the required payment of RMB 14,000,000 (approximately $2.1 million).

Principal payments required through the maturity date of July 11, 2021 as of June 30, 2018 are as follows:

Year	Amount
2018	2,115,107
2019	2,266,186
2020	2,266,186
2021	2,266,187
	$8,913,666

Fair Value of Construction Loan Facility – Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the carrying amounts of the construction loan facility outstanding as of June 30, 2018 and December 31, 2017 approximated its fair value because the underlying instrument bears an interest rate that approximated current market rates.

NOTE 9 – INCOME TAXES

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

Liabilities are established for uncertain tax positions expected to be taken in income tax returns when such positions are judged to meet the “more-likely-than-not” threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax positions are included as a component of other expenses. Through December 31, 2017, the Company has not identified any uncertain tax positions that it has taken. U.S. income tax returns for the years ended December 31, 2014 through December 31, 2017 and the Chinese income tax return for the year ended December 31, 2017 are open for possible examination.

On March 16, 2007, the National People’s Congress of China passed the 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. The Company transitioned to the new 25% tax rate over a five year period which began on January 1, 2008. During 2010, the Company applied for and received a favorable tax rate of 15% for fiscal 2011 through 2013 due to its status in the PRC as a high technology enterprise. In 2013, the Company again applied for and received the same favorable tax rate for 2014 to 2016. The recent net losses have put the Company in an unfavorable position for the potential renewal of “National High-Tech Enterprise” status in 2017. After evaluating the feasibility of the renewal, the Company has decided not to renew this

status. Under the current tax law in the PRC, the Company is and will be subject to the enterprise income tax rate of 25%.

CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

The provision for income taxes consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Current	$-	$-	$-	$-
Deferred	22,590	30,574	48,575	60,908
Total income tax expense	$22,590	$30,574	$48,575	$60,908

As of June 30, 2018, the Company had net operating loss carryforwards for PRC tax purposes of approximately $59.1 million which are available to offset any future taxable income through 2022. Approximately $6.4 million of these carryforwards will expire in 2018. The Company also has net operating losses for United States federal income tax purposes of approximately $5.3 million which are available to offset future taxable income, if any, through 2038.

Recent U.S. federal tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the “U.S. Tax Reform”), was signed into law on December 22, 2017. The U.S. Tax Reform significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transition tax on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings.

In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible or tax loss carry forwards are utilized. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon an assessment of the level of historical taxable income and projections for future taxable income over the periods on which the deferred tax assets are deductible or can be utilized, Management believes it is not likely for the Company to realize all benefits of the deferred tax assets as of June 30, 2018 and December 31, 2017. Therefore, the Company provided for a valuation allowance against its deferred tax assets of $28,580,656 and $27,270,737 as of June 30, 2018 and December 31, 2017, respectively.

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

NOTE 10 – FAIR VALUE MEASUREMENTS

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

The Company uses fair value to measure the value of the banker's acceptance notes it holds. The banker's acceptance notes are recorded at cost which approximates fair value. The Company held the following assets and liabilities recorded at fair value:

	June 30,	Fair Value Measurements at Reporting Date Using		
Description	2018	Level 1	Level 2	Level 3
Banker's acceptance notes	$ 19,612	$-	$19,612	$ -
Total	$ 19,612	$-	$19,612	$ -

	December 31,	Fair Value Measurements at Reporting Date Using		
Description	2017	Level 1	Level 2	Level 3
Banker's acceptance notes	$ 39,867	$-	$39,867	$ -
Total	$ 39,867	$-	$39,867	$ -

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CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

NOTE 11 – STOCKHOLDERS' EQUITY

The Company is authorized to issue 95,000,000 shares of common stock, $0.001 par value, and 5,000,000 shares of preferred stock, $0.001 par value. The preferred stock may be issued in series with such designations, preferences, stated values, rights, qualifications or limitations as determined solely by the Company's Board.

Employee Stock Options

2010 Incentive Plan

On November 12, 2010, the Company's Board of Directors adopted the Company's 2010 Incentive Plan (the "Plan"), which was then approved by stockholders on December 22, 2010. The Plan gave the Company the ability to grant stock options, restricted stock, stock appreciation rights and performance units to its employees, directors and consultants, or those who will become employees, directors and consultants of the Company and/or its subsidiaries. The Plan currently allows for equity awards of up to 4,000,000 shares of common stock. Through June 30, 2018, there were 175,000 shares of restricted stock granted and outstanding under the Plan. No options were outstanding as of June 30, 2018 under the Plan.

There were no securities issued from the Plan during each of the six months ended June 30, 2018 and 2017.

The Company recognized no compensation expense related to the awards of common shares and the grants and modifications of stock options during each of the three and six months ended June 30, 2018 and 2017.

The fair value of each option award is estimated on the date of grant using the Black-Scholes Option Pricing Model. Expected volatility is based on the historical volatility of the Company's common stock prices. The Company uses

historical data to estimate employee termination rates. The expected term of options granted is determined by the simplified method, which is one-half of the original contractual term. The simplified method is used due to the lack of historical share option exercise data to provide a reasonable basis upon which to estimate expected term. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

As of June 30, 2018, there was no remaining unrecognized compensation expense related to stock options or restricted stock grants.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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

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

NOTE 13 – CONCENTRATIONS

For the six months ended June 30, 2018, no customer accounted for more than 10% of sales and two customers accounted for 46.4% and 13.7% of accounts receivable. Three suppliers accounted for 21.7% and 18.1% and 14.4%of raw material purchases.

For the six months ended June 30, 2017, no customer accounted for more than 10% of sales and two customers accounted for 46.8% and 13.9% of accounts receivable, respectively. Three suppliers accounted for 25.1%, 19.1% and 16.7% of raw material purchases, respectively.

NOTE 14 – SUBSEQUENT EVENTS

In accordance with ASC 855-10 the Company's operations were reviewed by Management subsequent to June 30, 2018 to the date these consolidated financial statements were issued, and have determined we do not have any material subsequent events to disclose in these consolidated financial statements.

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

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

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

Business Overview & Recent Developments

On March 5, 2016, the Chinese State Council issued "*Opinions on Carrying out Consistency Evaluations of the Quality and Efficacy of Generic Drugs*" (the "Opinions"). The Opinions define the object of evaluations and establish deadlines, determine selection criteria for reference drugs, call for a rational selection of evaluation methods, identify pharmaceutical manufacturers as the principal in generic drug consistency evaluations, and set forth corresponding incentives. Subsequently, the CFDA issued "*Comments from the General Office of the State Council on the Consistency Evaluations of the Efficacy and Quality of Generic Drugs*" in May 2016, in order to further elaborate on assessment processes and related technical rules. Consistency evaluations apply to the majority of our existing marketed and pipeline products. In this environment, management has assessed each pipeline product based on the adjusted CFDA approval criteria and clinical trial requirements, as well as the estimated additional investment for consistency evaluations, and potential return of investment once launched into the market; and decided to terminate the progression of certain pipeline products. Complying with consistency evaluations has become our core task, and therefore, will have a significant impact on our operations as well as our industrial structure.

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Under the requirements of the consistency evaluations policy, the Company actively evaluated the technical difficulty, investment demand, time requirement, and investment return rate of all applicable marketed products and pipeline products. We also actively promoted the compliance process for some key products since 2017.

Increasing our sales remains our top priority. Through the continued implementation of sales promotion, the Company realized sales increases in the first half of 2018 compared to the same period a year ago. Management will continue to vigorously promote sales by actively participating in the recent opening of the new provincial drug tender and participation in drug exhibitions.

In order to support our existing products package we remain focused on pipeline development. We have experienced delays in obtaining approval for certain products in our pipeline because of revisions of and enhancements to CFDA approval criteria and processes. These revisions have resulted in additional supplemental materials and trials, higher costs, and longer approval times for certain applications.

The status of our pipeline products as of June 30, 2018 remains the same as we reported in our Annual Report on Form 10-K filed with the SEC on April 2, 2018.

Market Trends

The rapid development of the pharmaceutical industry in China has been driven by the continuous growth of total healthcare costs, the establishment and improvement of the universal health-care insurance system, increases in medical expenditures per capita, the aging population, and changes in the disease spectrum; however, development has been negatively impacted by factors like health-care insurance cost controls and price pressure in drug tenders in recent years.

The Central Committee Political Bureau of the Communist Party of China approved the “Healthy China 2030 Plan” in August 2016, which proposed to reduce personal hygiene spending to approximately 28% of total healthcare expenditures by 2020, and 25% of total healthcare expenditures by 2030.

Related to the above, in order to achieve the objectives of the Healthy China 2030 Plan in the context of an aging population and an improving universal health-care insurance system, we believe that the hygiene spending proportion of total fiscal expenditures by government will increase and that net annual health-care insurance expenditures will increase as well. We anticipate that the use of generic drugs as a cost-effective medical solution will be further

promoted as a way to reduce the payment pressures of health-care insurance. As a generic drug company we are presented with a huge domestic market, and through further upgrades, especially in compliance with consistency evaluations, we could meet European and American production standards, enabling us to export products to overseas markets.

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In August 2015, the State Council promulgated the "*Opinions on Examination and the Approval System for the Reform of Drugs and Medical Devices*", which was the prelude to the reform of the drug examination and approval system, the reform of the drug registration system, consistency evaluations of generic drugs, and enhanced drug listing licensing systems, among other reforms in China. The CFDA has also subsequently introduced a number of specific measures and technical details related to various areas of the above-mentioned reforms. These policies may change the existing competition landscape, development methods, and operating patterns and rules of the pharmaceutical industry and may have a significant impact on the strategic choices and future development models of Chinese pharmaceutical companies.

In summary, demand for pharmaceutical products is still experiencing steady growth in China. The ongoing generic drug consistency evaluations and reform of China's drug production registration and review policies are expected to have major effects on the future development of our industry and may change its business patterns. We will continue to actively adapt to state policy guidance and further evaluate market conditions for our current products, pipeline products, and competition in the market in order to optimize our development strategy.

Results of Operations for the Three Months Ended June 30, 2018

Revenue

Revenue increased by 8.8% to $3.2 million for the three months ended June 30, 2018, as compared to $3.0 million for the three months ended June 30, 2017. This increase was mainly due to market volatility.

Set forth below are our revenues by product category in millions (USD) for the three months ended June 30, 2018 and 2017:

Product Category	Three Months Ended June 30, 2018	2017	Net Change	% Change	
CNS Cerebral & Cardio Vascular	0.74	0.45	0.29	66	%
Anti-Viral/ Infection & Respiratory	1.47	1.90	-0.44	-23	%
Digestive Diseases	0.25	0.13	0.12	91	%
Other	0.72	0.44	0.28	62	%

The most significant revenue decrease in terms of dollar amount was in our “Anti-Viral/Infection & Respiratory” product category, which generated $1.47 million in sales revenue in the three months ended June 30, 2018 compared to $1.90 million in the same period last year, a decrease of $0.44 million. This decrease was mainly due to the sales decrease of our Cefaclor Dispersible Tablets in this category, which was a result of market fluctuation.

Sales in the “CNS Cerebral & Cardio Vascular” category increased by $0.29 million to $0.74 million in the three months ended June 30, 2018 compared to $0.45 million in the same period last year, which increase was mainly due to an increase in sales of Ozagrel, primarily the result of volatility in market demand.

Our “Other” product category sales increased by $0.28 million to $0.72 million in the three months ended June 30, 2018 from $0.44 million in the same period last year, mainly due to the increase in sales of Vitamin B6 caused by market volatility.

Our “Digestive Diseases” category generated $0.25 million and $0.13 million of sales in the three months ended June 30, 2018 and 2017, respectively.

	Three Months Ended June 30,	
Product Category	2018	2017
CNS Cerebral & Cardio Vascular	23%	15 %
Anti-Viral/ Infection & Respiratory	46%	65 %
Digestive Diseases	8 %	5 %
Other	23%	15 %

For the three months ended June 30, 2018, revenue breakdown by product category had several changes to that of the prior year. Sales of the “Anti-Viral/Infection & Respiratory” products category represented 46% and 65% of total sales in three months ended June 30, 2018 and 2017, respectively. The “CNS Cerebral & Cardio Vascular” category represented 23% of total revenue in the three months ended June 30, 2018, compared to 15% in the three months ended June 30, 2017. The “Other” category represented 23% of total revenue in the three months ended June 30, 2018, compared to 15% in the three months ended June 30, 2017. The “Digestive Diseases” category represented 8% and 5% of total revenue in the three months ended June 30, 2018 and 2017, respectively.

Cost of Revenue

For the three months ended June 30, 2018, our cost of revenue was $2.6 million, or 81.7% of total revenue, which represented an increase of $0.3 million from $2.3 million, or 77.8% of total revenue, in the same period last year.

Gross Profit and Gross Margin

Gross profit was $0.6 million for each of the three months ended June 30, 2018 and 2017. Our gross profit margin in the three months ended June 30, 2018 was 18.3% compared to 22.2% in the same period last year. This decrease was

primarily due to more sales of lower margin products in this period compared to the sales performance in the same period last year.

Selling Expenses

Our selling expenses for the three months ended June 30, 2018 were $0.7 million, a decrease of $0.1 million, compared to $0.8 million for the three months ended June 30, 2017. Selling expenses accounted for 22.5% of the total revenue in the three months ended June 30, 2018 compared to 27.5% in the same period last year.

General and Administrative Expenses

Our general and administrative expenses for the three months ended June 30, 2018 were $0.4 million, which represented a decrease of $0.3 million compared to $0.6 million in the same period last year. General and administrative expenses accounted for 11.1% and 21.0% of our total revenues in three months ended June 30, 2018 and 2017, respectively.

Research and Development Expenses

Our research and development expenses were $0.02 million for each of the three months ended June 30, 2018 and 2017. The consistency evaluations discussed under the “Business Overview & Recent Developments” section hereof has had and is expected to continue to have a significant impact on all generic products not only in our pipeline, but also throughout the existing Chinese market. Because of the continuous introduction of detailed implementation rules under this policy, our pipeline did not have any further development in the three months ended June 30, 2018.

Bad Debt Expenses

Our bad debt expenses were $0.4 million for each of the three months ended June 30, 2018 and 2017.

In general, our normal credit or payment terms extended to customers are for 90 days. This has not changed in recent years. Due to the peculiarity of the Chinese pharmaceutical market environment, deferred payments to pharmaceutical companies by state-owned hospitals and local medicine distributors are a normal phenomenon. Our customers are primarily pharmaceutical distributors that sell our products to mostly government-backed hospitals. Therefore, the aging of our receivables from our customers tends to be longer-term.

The amount of net accounts receivable that were past due (or the amount of accounts receivable that were more than 90 days old) was $1.4 million and $2.2 million as of June 30, 2018 and December 31, 2017, respectively.

The following table illustrates our accounts receivable aging distribution in terms of percentage of total accounts receivable as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
1 - 90 Days	5.0%	3.9%
90 - 180 Days	2.4%	1.6%
180 - 360 Days	2.5%	2.4%
360 - 720 Days	8.6%	13.6%
> 720 Days	81.5%	78.5%
Total	100.0%	100.0%

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Our bad debt allowance estimate is currently 10% of accounts receivable that are less than 365 days old, 70% of accounts receivable that are between 365 days and 720 days old, and 100% of accounts receivable that are greater than 720 days old.

We recognize bad debt expenses per actual write-offs as well as changes of allowance for doubtful accounts. To the extent that our current allowance for doubtful accounts is higher than that of the previous period, we recognize a bad debt expense for the difference during the current period, and when the current allowance is lower than that of the previous period, we recognize a bad debt benefit for the difference. The allowance for doubtful accounts was $18.2 million as of each of June 30, 2018 and December 31, 2017. The changes in the allowances for doubtful accounts during the three months ended June 30, 2018 and 2017 were as follows:

	For the Three Months Ended June 30,	
	2018	2017
Balance, Beginning of Period	$18,865,079	$16,161,252
Bad debt expense	350,847	364,989
Foreign currency translation adjustment	-977,678	278,980
Balance, End of Period	$18,238,248	$16,805,221

Impairment of Long-Term Assets

There was no impairment for long-term assets for the three months ended June 30, 2018; and the Company recognized an impairment related to “Advances for purchases of intangible assets” in the amount of $1.0 million for the three months ended June 30, 2017, as the Company reviewed the contracts relating to advances made for purchases of intangible assets with independent laboratories and determined that the advances made by the Company for a few formulas to the independent laboratories to which the Company had made advances were impaired. There is no such situation during the three months ended June 30, 2018.

Loss from Operations

Our operating loss for the three months ended June 30, 2018 was $0.9 million, compared to an operating loss of $2.1 million in the same period last year.

Net Interest Expense

Net interest expense was $0.1 million for each of the three months ended June 30, 2018 and 2017, respectively.

Income Tax Expense

Our income tax rate for our wholly owned subsidiary, Hainan Helpson Medical & Biotechnology Co., Ltd. (“Helpson”) was 25% for each of the three months ended June 30, 2018 and 2017. Our income tax expense was $0.02 million and $0.03 million for the three months ended June 30, 2018 and 2017, respectively. The expense arose as a result of certain deferred tax liabilities recognized in prior years. We renewed our "National High-Tech Enterprise" status with the Chinese government in the third quarter of 2013. With this designation, for the years ending December 31, 2015 and 2016, we enjoyed a preferential tax rate of 15%, which is notably lower than the statutory income tax rate of 25%. However, our recent net loss results have put the Company in an unfavorable position for the potential renewal of "National High-Tech Enterprise" status in 2017, and after evaluating the feasibility of such a renewal, the Company has decided not to renew this status. As a result, Helpson’s tax rate for 2017 and the foreseeable future will be 25%.

Net Loss

Net Loss for the three months ended June 30, 2018 was $1.0 million, compared to net loss of $2.3 million for the three months ended June 30, 2017.

For the three months ended June 30, 2018, loss per basic and diluted common share was $0.02, compared to loss per basic and diluted share of $0.05 for the three months ended June 30, 2017.

The number of basic and diluted weighted-average outstanding shares used to calculate loss per share was 43,579,557 for each of the three months ended June 30, 2018 and 2017.

Results of Operations for the Six Months Ended June 30, 2018

Revenue

Revenue increased by 9.5% to $6.8 million for the six months ended June 30, 2018, as compared to $6.2 million for the six months ended June 30, 2017. This increase was mainly due to market volatility.

Set forth below are our revenues by product category in millions (USD) for the six months ended June 30, 2018 and 2017, respectively:

Product Category	Six Months Ended June 30, 2018	2017	Net Change	% Change
CNS Cerebral & Cardio Vascular	1.25	0.93	0.32	35 %
Anti-Viral/ Infection & Respiratory	3.81	4.08	-0.27	-7 %
Digestive Diseases	0.42	0.30	0.12	38 %
Other	1.31	0.90	0.42	46 %

The most significant revenue increase in terms of dollar amount was in our “Other” product category, which generated $1.31 million in sales revenue in the six months ended June 30, 2018 compared to $0.90 million in the same period a year ago, an increase of $0.42 million. This increase was mainly due to sales increase of Vitamin B6 due to market volatility.

“CNS Cerebral & Cardio Vascular” category, which generated $1.25 million in sales revenue in the six months ended June 30, 2018 compared to $0.93 million in the same period a year ago, an increase of $0.32 million. This increase was mainly due to sales increase of Ozagrel due to market volatility.

Sales of our Digestive Diseases category also increased by $0.12 million to $0.42 million in the six months ended June 30, 2018 from $0.30 million in the same period in 2017, mainly due to the increase in sales of Omeprazole, caused by market volatility.

Sales in the “Anti-Viral/ Infection & Respiratory” category decreased by $0.27 million to $3.81 million in the six months ended June 30, 2018 compared to $4.08 million in the same period in 2017. This decrease was mainly due to sales decrease of Cefaclor due to market volatility.

Product Category	Six Months Ended June 30, 2018	2017
CNS Cerebral & Cardio Vascular	19%	15 %
Anti-Viral/ Infection & Respiratory	56%	66 %
Digestive Diseases	6 %	5 %
Other	19%	14 %

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For the six months ended June 30, 2018, revenue breakdown by product category showed certain changes compared to that of the same period in 2017. Sales of the "Anti-Viral/Infection & Respiratory" products category represented 56% and 66% of total sales in the six months ended June 30, 2018 and 2017, respectively. The "CNS Cerebral & Cardio Vascular" category represented 19% and 15% of total revenue in the six months ended June 30, 2018 and 2017, respectively. The "Other" category represented 19% and 14% of revenues in 2018 and 2017, respectively. And the "Digestive Diseases" category represented 6% and 5% of total revenue in the six months ended June 30, 2018 and 2017, respectively.

Cost of Revenue

For the six months ended June 30, 2018, our cost of revenue was $5.2 million, or 76% of total revenue, while cost of revenue was $4.8 million, or 78% of total revenue, in the same period in 2017.

Gross Profit and Gross Margin

Gross profit for the six months ended June 30, 2018 was $1.6 million, compared to $1.4 million in the same period in 2017. Our gross profit margin in the six months ended June 30, 2018 was 24.1% compared to 22.0% in the same period in 2017. The increase in our gross profit margin was mainly due to the increase in sales of higher margin products in the first half of 2018.

Selling Expenses

Our selling expenses for the six months ended June 30, 2018 and 2017 were $1.4 million and $1.5 million, respectively. Selling expenses accounted for 20.5% of the total revenue in the six months ended June 30, 2018 compared to 24.5% in the same period in 2017.

General and Administrative Expenses

Our general and administrative expenses for the six months ended June 30, 2018 were $0.8 million, which represented a decrease of $0.2 million compared to $1.0 million in the same period in 2017. General and administrative expenses accounted for 12.4% and 16.6% of our total revenues in the six months ended June 30, 2018 and 2017, respectively.

Research and Development Expenses

Our research and development expenses for each of the six months ended June 30, 2018 and 2017 were $0.05 million. The consistency evaluations discussed under the "Business Overview & Recent Developments" section hereof has had and is expected to continue to have a significant impact on all generic products not only in our pipeline, but also throughout the existing Chinese market. Because of the continuous introduction of detailed implementation rules under this policy, our pipeline did not have any further development in the first half in 2018.

Bad Debt Expenses

Our bad debt expenses for the six months ended June 30, 2018 was $0.4 million, which represented a decrease of $0.4 million compared to $0.7 million in the same period in 2017. The decrease in our bad debt expenses was mainly due to the improvement in our collection of accounts receivable in the first half of 2018.

The changes in the allowances for doubtful accounts during the six months ended June 30, 2018 and 2017 were as follows:

	For the Six Months Ended June 30,	
	2018	2017
Balance, Beginning of Period	$18,209,734	$15,664,479
Bad debt expense (benefit)	352,681	725,052
Foreign currency translation adjustment	-324,167	415,690
Balance, End of Period	$18,238,248	$16,805,221

Loss from Operations

Our operating loss for the six months ended June 30, 2018 was $1.0 million, compared to an operating loss of $3.0 million in the same period in 2017.

Net Interest Expense

Net interest expense for the six months ended June 30, 2018 was $0.2 million, compared to $0.3 million for the same period in 2017.

Income Tax expense

Our income tax rate for our wholly owned subsidiary, Helpson, was 25% for each of the six months ended June 30, 2018 and 2017. Our income tax expense was $0.05 million for the six months ended June 30, 2018 and $0.06 million for the same period in2017. Helpson's tax rate for 2018 and the foreseeable future will be 25%.

Net Loss

Net Loss for the six months ended June 30, 2018 was $1.3 million, compared to net loss of $3.3 million in the same period a year ago. The decrease in net loss was mainly the result of increase in revenue and decreased expenses in the six months ended June 30, 2018.

For the six months ended June 30, 2018, loss per basic and diluted common share was $0.03, compared to loss per basic and diluted common share of $0.07 for the six months ended June 30, 2017.

The number of basic and diluted weighted-average outstanding shares used to calculate loss per share was 43,579,557 for each of the six months ended June 30, 2018 and 2017.

Liquidity and Capital Resources

Our principal source of liquidity is cash generated from operations. Our cash and cash equivalents were $1.9 million, representing 3.3% of our total assets as of June 30, 2018, as compared to $2.0 million, representing 3.4% of our total assets as of December 31, 2017. All of the $1.9 million of cash and cash equivalents as of June 30, 2018 is considered to be reinvested indefinitely in our Chinese subsidiary, Helpson, and is not expected to be available for payment of dividends or for other payments to our parent company or to its shareholders. We entered into an eight-year construction loan facility on September 21, 2013. The total loan facility amount was RMB 80 million (approximately $13 million), which had been fully utilized through May 7, 2014. As of July 31, 2018, we have repaid RMB35 million (approximately $5.1 million) towards the principal of the construction loan per the repayment schedule. The current portion of the construction loan facility is $2.1 million as of June 30, 2018. The cash flow generated from operating activities was used to fund our daily operating expenses as well as repayment of our loan facility.

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

Operating Activities

Net cash provided by operating activities was $0.1 million in the six months ended June 30, 2018, compared to $0.8 million used by operating activities for the same period in 2017.

As of June 30, 2018, our net accounts receivable was $2.4 million, an increase of $0.1 million from $2.3 million as of December 31, 2017.

Total inventory was $6.4 million as of each of June 30, 2018 and December 31, 2017.

Investing Activities

During the six months ended June 30, 2018, net cash used in investing activities was $0.03 million compared to $0.05 million for the six months ended June 30, 2017.

Financing Activities

Cash flow used in financing activities was $0.2 million in the six months ended June 30, 2018, compared to $0.1 million in the six months ended June 30, 2017. The financing activities that occurred in the six months ended June 30, 2018 were primarily related to the scheduled payments of the construction loan facility described in the first paragraph of this section entitled “Liquidity and Capital Resources” and as discussed in Note 8 to the consolidated financial statements.

According to relevant PRC laws, companies registered in the PRC, including our PRC subsidiary, Helpson, are required to allocate at least ten percent (10%) of their after-tax net income, as determined under accounting standards and regulations in the PRC, to statutory surplus reserve accounts until the reserve account balances reach fifty percent (50%) of the companies' registered capital prior to their remittance of funds out of the PRC. Allocations to these reserves and funds can only be used for specific purposes and are not transferrable to the parent company in the form of loans, advances or cash dividends. As of June 30, 2018 and December 31, 2017, the net assets of Helpson were $38,078,000 and $40,034,000, respectively. Due to the restriction on dividend distribution to overseas shareholders, the amount of Helpson's net assets that were designated for general and statutory capital reserves, and thus could not be transferred to our parent company as cash dividends, were $8,145,000 and $8,145,000 (50% of registered capital) as of June 30, 2018 and December 31, 2017, respectively. Since the amount that Helpson must set aside for the statutory surplus fund only accounts for 21.4% and 20.3%, respectively, of its total net assets, this reserve does not have a major impact on our liquidity. There were no allocations to the statutory surplus reserve accounts during the six months ended June 30, 2018.

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

Off-Balance Sheet Arrangements

As of June 30, 2018, we did not have any off-balance sheet arrangements.

Commitments

As of June 30, 2018, we were obligated to pay laboratories and other service providers approximately $1.1 million over approximately the next four years upon completion of various phases of contracts required to obtain CFDA production approval for our medical formulas.

Critical Accounting Policies

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and interim Chief Financial Officer, evaluated the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this quarterly report. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act (a) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (b) is accumulated and communicated to management, including our Chief Executive Officer and interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, our Chief Executive Officer and interim Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2018 to satisfy the objectives for which they are intended due to the material weakness in our internal control over financial reporting with respect to our lack of accounting financial reporting personnel knowledgeable in U.S. GAAP as disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on April 2, 2018. Notwithstanding these material weakness, management has concluded that our consolidated financial statements included in this report are fairly stated in all material respects in accordance with U.S. GAAP for each period presented herein.

Changes in Internal Controls over Financial Reporting

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

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PART II OTHER INFORMATION

Item 6. Exhibits

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

SIGNATURES

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

CHINA PHARMA HOLDINGS, INC.

Date: August 14, 2018 By: /s/ Zhilin Li
Name: Zhilin Li
Title: President and Chief Executive Officer
(principal executive officer)

Date: August 14, 2018 By: /s/ Zhilin Li
Name: Zhilin Li
Title: Interim Chief Financial Officer
(principal financial officer and principal accounting officer)

EXHIBIT INDEX

No.	Description
31.1 -	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 -	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 -	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS -	XBRL Instance Document
101.SCH -	XBRL Taxonomy Extension Schema Document
101.CAL -	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF -	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB -	XBRL Taxonomy Extension Label Linkbase Document
101.PRE -	XBRL Taxonomy Extension Presentation Linkbase Document