CHINA PHARMA HOLDINGS, INC.
Form 10-Q
May 16, 2016

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 March 31, 2016

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

For the transition period from _____ to _____

Commission File Number 001-34471

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

Nevada	75-1564807
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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 May 11, 2016.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

The results of operations for the three-month period ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

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

	March 31, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$7,261,777	$6,248,760
Banker's acceptances	116,317	-
Trade accounts receivable, less allowance for doubtful accounts of $29,598,703 and $28,644,398, respectively	4,791,247	5,882,509
Other receivables, less allowance for doubtful accounts of $78,558 and $74,400, respectively	191,958	290,739
Advances to suppliers	2,643,516	2,533,354
Inventory, less allowance for obsolescence of $6,696,224 and $8,417,095, respectively	9,917,139	9,662,750
Prepaid expenses	195,081	339,140
Total Current Assets	25,117,035	24,957,252
Advances for purchases of intangible assets	42,309,641	42,030,649
Property and equipment, net of accumulated depreciation of $10,286,937 and $9,442,912, respectively	28,826,692	29,393,257
Intangible assets, net of accumulated amortization of $4,456,837 and $4,360,004, respectively	778,766	841,075
TOTAL ASSETS	$97,032,134	$97,222,233
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$3,744,095	$2,824,521
Accrued expenses	113,627	143,409
Other payables	1,712,024	1,710,283
Advances from customers	932,653	595,681
Other payables - related parties	1,354,567	1,354,567
Current portion of construction loan facility	1,550,893	1,540,666
Short-term notes payable	4,652,678	4,621,998
Total Current Liabilities	14,060,537	12,791,125
Non-current Liabilities:		
Construction loan facility	10,546,069	10,784,661
Deferred revenue	534,833	708,408
Long-term deferred tax liability	322,012	296,890
Total Liabilities	25,463,451	24,581,084
Stockholders' Equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $0.001 par value; 95,000,000 shares authorized; 43,579,557 shares and 43,579,557 shares outstanding, respectively	43,580	43,580

Additional paid-in capital	23,590,204	23,590,204
Retained earnings	32,387,102	33,939,998
Accumulated other comprehensive income	15,547,797	15,067,367
Total Stockholders' Equity	71,568,683	72,641,149
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$97,032,134	$97,222,233

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

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

	For the Three Months Ended March 31,	
	2016	2015
Revenue	$3,640,494	$5,694,930
Cost of revenue	3,071,461	4,434,706
Inventory obsolescence (benefit) expense	(71,786)	201,097
Gross profit	640,819	1,059,127
Operating expenses:		
Selling expenses	968,507	988,953
General and administrative expenses	318,930	472,429
Research and development expenses	93,433	160,828
Bad debt expense	581,300	3,200,003
Total operating expenses	1,962,170	4,822,213
Loss from operations	(1,321,351)	(3,763,086)
Other income (expense):		
Interest income	33,592	26,855
Interest expense	(242,309)	(313,775)
Net other expense	(208,717)	(286,920)
Loss before income taxes	(1,530,068)	(4,050,006)
Income tax expense	(22,828)	(19,284)
Net loss	(1,552,896)	(4,069,290)
Other comprehensive income - foreign currency translation adjustment	480,430	435,480
Comprehensive income (loss)	$(1,072,466)	$(3,633,810)
Loss per share:		
Basic	$(0.04)	$(0.09)
Diluted	$(0.04)	$(0.09)

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

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

	For the Three Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities:		
Net loss	$(1,552,896)	$(4,069,290)
Depreciation and amortization	857,195	951,212
Bad debt expense	581,300	3,200,003
Deferred income taxes	22,828	19,284
Inventory obsolescence reserve	(1,751,863)	201,097
Changes in assets and liabilities:		
Trade accounts and other receivables	(61,069)	(1,408,092)
Advances to suppliers	(92,039)	(154,575)
Inventory	1,967,359	396,521
Trade accounts payable	888,212	917,765
Accrued taxes payable	(53,955)	18,019
Other payables and accrued expenses	25,514	(4,813)
Advances from customers	328,354	(243,289)
Prepaid expenses	144,262	173,919
Net Cash Provided by Operating Activities	1,303,202	(2,239)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(39,248)	(47,106)
Net Cash Used in Investing Activities	(39,248)	(47,106)
Cash Flows from Financing Activities:		
Payments of construction term loan	(305,835)	-
Net Cash Provided by Financing Activity	(305,835)	-
Effect of Exchange Rate Changes on Cash	54,898	22,411
Net (Decrease) Increase in Cash and Cash Equivalents	1,013,017	(26,934)
Cash and Cash Equivalents at Beginning of Period	6,248,760	5,295,790
Cash and Cash Equivalents at End of Period	$7,261,777	$5,268,856
Supplemental Cash Flow Information:		
Cash paid for interest	$1,151,613	$1,230,800
Supplemental Noncash Investing and Financing Activities:		
Accounts receivable collected with banker's acceptances	517,770	464,075
Inventory purchased with banker's acceptances	403,081	551,167

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

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2016 and 2015

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 2015 version, effective April 10, 2015) classified various industries/businesses into three different categories: (i) encouraged for foreign investment; (ii) restricted to foreign investment; and (iii) prohibited from foreign investment. For any industry/business not covered by any of these three categories, they will be deemed industries/businesses permitted for foreign investment. A typical foreign investment ownership restriction in the pharmaceutical industry is that a foreign investment enterprise (the "FIE") shall not have the whole or majority of its equity interests owned by a foreign owner if the FIE establishes more than 30 branch stores and distributes a variety of brands in those franchise stores, which is not the case for the Company's business.

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

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

Consolidation and Basis of Presentation – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 purchased with maturities of three months or less.

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 $581,300 and $3,200,003 for the three months ended March 31, 2016 and 2015, respectively.

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. It is common practice in the pharmaceutical industry 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. As of March 31, 2016, the Company had trade accounts receivable amounting to $16,853,716 from sales that occurred more than one year from that date, which the Company believes are collectable.

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2016 and 2015

Advances to Suppliers and Advances from Customers – Common practice in the pharmaceutical industry 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 is stated at the lower of cost or net realizable value, computed on an average cost basis. We charge inventory obsolescence expense for inventory allowance to write down our inventory to the lower of cost or estimated market value or to completely write off obsolete or excess inventory. Charges to inventory obsolescence expense totaled ($71,786) and $201,097 for the three months ended March 31, 2016 and 2015, respectively. The Company recognized an inventory obsolescence reserve of $6,696,224 and $8,417,095 as of March 31, 2016 and December 31, 2015, respectively.

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 adjustment required for the three months ended March 31, 2016 and 2015.

Property and Equipment – Property 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.

Revenue Recognition – Revenue is considered earned when the Company obtains persuasive evidence of an arrangement with the customer, when delivery of the products has occurred, when the sales price is fixed or determinable, and when collectability is reasonably assured. Delivery does not occur until products have been shipped to the customer, the risk of loss has transferred to the customer and customer acceptance has been obtained, customer acceptance provisions have lapsed, or the Company obtains objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. Revenue is deferred when collectability is not considered to be reasonably assured.

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. Research and development expenses were $93,433 and $160,828 for the three months ended March 31, 2016 and 2015, respectively.

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.

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

	Three Months Ended March 31,	
	2016	2015
Net loss	$(1,552,896)	$(4,069,290)
Basic weighted-average common shares outstanding	43,579,557	43,579,557
Effect of dilutive securities:		
Warrants	-	-
Options	-	-
Diluted weighted-average common shares outstanding	43,579,557	43,579,557
Basic loss per share	$(0.04)	$(0.09)
Diluted loss per share	$(0.04)	$(0.09)

There were no potential dilutive common shares outstanding during the three months ended March 31, 2016 and 2015, 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.

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2016 and 2015

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 new 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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09), which contains new accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. In July 2015, the FASB decided to delay the effective date of the new standard by one year; as a result, the new standard will be effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption will be permitted, but no earlier than 2017 for calendar year-end entities.

The standard allows for two transition methods - retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial adoption. We have not yet determined our method of transition and are evaluating the impact that this guidance will have on our financial statements.

In January 2016, the FASB issued Accounting Standards Update 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, and separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. Additionally, the amendments eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Other than an amendment relating to presenting in comprehensive income the portion of the total change in the fair value of a liability resulting from a change in instrument-specific credit risk (if the entity has elected to measure the liability at fair value), early adoption is not permitted. The Company does not anticipate the amendment will have any impact on its financial statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material effect on the Company's financial position, result of operations or cash flows.

NOTE 2 – INVENTORY

Inventory consisted of the following:

	March 31, 2016	December 31, 2015
Raw materials	$12,329,926	$14,699,736
Work in process	$618,329	$-
Finished goods	3,665,108	3,380,109
	16,613,363	18,079,845
Obsolescence reserve	(6,696,224)	(8,417,095)
Total Inventory	$9,917,139	$9,662,750

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2016 and 2015

	March 31, 2016	December 31, 2015
Permit of land use	$436,836	$433,956
Building	10,627,311	10,557,234
Plant, machinery and equipment	27,521,628	27,325,440
Motor vehicle	268,279	242,860
Office equipment	259,575	256,679
Total	39,113,629	38,816,169
Less: accumulated depreciation	(10,286,937)	(9,422,912)
Property and Equipment, net	$28,826,692	$29,393,257

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 March 31, 2016 and 2015, depreciation expense was $790,254 and $854,485, respectively.

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 formula during the three months ended March 31, 2016 and 2015 and no costs were reclassified from advances to intangible assets during the three months ended March 31, 2016 and 2015, 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 $66,941 and $96,726 for the three months ended March 31, 2016 and 2015, 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.

The Company evaluates each approved medical formula for impairment at the date of CFDA approval, when indications of impairment are present and at the date of each financial statement. The Company's evaluation is based on an estimated undiscounted net cash flow model, considering currently available market data for the related drug and the Company's estimated market share. If the carrying value of the medical formula exceeds the estimated future

net cash flows, an impairment loss is recognized for the excess of the carrying value over the 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 months ended March 31, 2016 and 2015.

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

	March 31, 2016	December 31, 2015
Gross carrying amount	$5,235,603	$5,201,079
Accumulated amortization	(4,456,837)	(4,360,004)
Net carrying amount	$778,766	$841,075

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2016 and 2015

NOTE 5 – ADVANCES FOR PURCHASES OF INTANGIBLE ASSETS

In order to expand the number of medicines the Company manufactured and marketed, it has 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 is 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 end December 31, 2013. These patents have not expired.

Prior to entering into contracts with the Company, laboratories typically are required to complete all research and development to determine the content of the medical formula and the method to produce the generic medicine. The application 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.

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

As of March 31, 2016, the Company was obligated to pay laboratories and others approximately $4,785,000 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 had previously advanced the Company an aggregate amount of $1,354,567 as of March 31, 2016 and December 31, 2015 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 of $3,386 was recognized for each of the three months ended March 31, 2016 and 2015.

NOTE 7 – NOTES PAYABLE

In November 2014, the Company entered into a new line of credit with the same bank on identical terms. Advances on the line of credit were due one year from the date of the advance and were collateralized by certain land use rights, buildings and accounts receivable and bear interest at an annual rate of 6.16% (based upon 110% of the PRC government's current short term rate of 5.6%). In addition, the Company's Chief Executive Officer and Chair of the board of directors personally guaranteed the new line of credit. In November 2015 the Company renewed its line of credit in the amount of RMB 30,000,000 with the same bank. The line of credit is payable in two equal installments of RMB 15,000,000 ($2.31 million) payable on September 16, 2016 and October 19, 2016. Advances on the line of credit are collateralized by certain land use rights, buildings and accounts receivable and bear interest at an annual rate of 5.06% (based upon 110% of the PRC government's current short term rate of 4.6%). In addition, the Company's Chief Executive Officer and Chairman of the Board personally guaranteed the line of credit.

The outstanding balance due under the revolving line of credit was RMB 30,000,000 as of March 31, 2016 and December 31, 2015 ($4,652,678 as of March 31, 2016 and $4,621,998 as of December 31, 2015). The Company has no additional amounts available to it under this line of credit. This amount has been classified as short-term notes payable in the accompanying condensed consolidated balance sheets as of March 31, 2016.

Fair Value of Notes Payable – Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the carrying amounts of notes payable outstanding as of March 31, 2016 and December 31, 2015 approximated their fair value because of the immediate or short-term maturity of these financial instruments and because the underlying instruments bear interest rates that approximated current market rates.

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2016 and 2015

NOTE 8 – CONSTRUCTION LOAN FACILITY

The Company obtained a construction loan facility in the amount of RMB 80,000,000 from a construction loan facility dated June 21, 2013. The loan facility is for an eight-year term, which commenced on July 11, 2013, the initial draw-down date and is from the same bank that currently provides the line of credit as discussed in Note 7. The proceeds of the loan were used for and are collateralized by the construction of the Company's new production facility and the included production line equipment and machinery. The loan currently bears weighted interest at 5.73%, 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 the interest rate was adjusted to 5.94%. The loan required interest only payments for the first two years. Beginning July 11, 2015, the balance of the principal is 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. In January 2016, the Company made a principal payment in the amount of approximately $309,000 (RMB2,000,000) with the remaining annual principal payment of $1,320,000 (8,000,000 RMB) being due in July 2016. As of March 31, 2016, the Company had no additional amounts available to it under this facility.

Principal payments required for the next five years as of March 31, 2016 are as follows:

Twelve Months Ending March 31,	Amount
2017	1,550,893
2018	1,240,714
2019	2,326,339
2020	2,326,339
2021	2,326,339
2022	2,326,339
	$12,096,962

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 March 31, 2016 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 on deferred tax assets and liabilities of a change in tax laws or rates is recognized in income in the period that includes the enactment date.

Undistributed earnings of Helpson, the Company's foreign subsidiary, since its acquisition, amounted to approximately $38.5 million as of March 31, 2016. Those earnings, as well as the investment in Helpson of approximately $23.3 million, are considered to be indefinitely reinvested and, accordingly, no U.S. federal or state

income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. federal and state income taxes (net of an adjustment for foreign tax credits) and withholding taxes payable to the PRC. Determination of the amount of unrecognized deferred U.S. income tax liability is not 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.

Liabilities are established for uncertain tax positions expected to be taken in income tax return 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 March 31, 2016, the Company has not identified any uncertain tax positions that it has taken. U.S. income tax returns for the years ended December 31, 2012 through December 31, 2015 and the Chinese income tax return for the year ended December 31, 2015 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. Under the current tax law in the PRC, the Company is and will be subject to the following enterprise income tax rates:

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Year	Enterprise Income Tax Rate
2015	15%
2016	15%
Thereafter	25%

The provision for income taxes consisted of the following:

	Three Months Ended March 31,	
	2016	2015
Current	$-	$-
Deferred	22,828	19,284
Total income tax expense	$22,828	$19,284

As of March 31, 2016, the Company had net operating loss carryforwards for PRC tax purposes of approximately $35.5 million which are available to offset any future taxable income through 2021. The Company also has net operating losses for United States federal income tax purposes of approximately $4.1 million which are available to offset future taxable income, if any, through 2036.

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 March 31, 2016 and December 31, 2015. Therefore, the Company provided for a valuation allowance against its deferred tax assets of $12,897,790 and $12,798,572 as of March 31, 2016 and December 31, 2015, 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 banker's acceptances are recorded at cost which approximates fair value. The Company held the following assets and liabilities recorded at fair value as of March 31, 2016:

		Fair Value Measurements at Reporting Date Using		
Description	March 31, 2016	Level 1	Level 2	Level 3
Banker's acceptances	$116,317	$-	$116,317	$ -
Total	$116,317	$-	$116,317	$ -

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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 March 31, 2016, there were 175,000 shares of restricted stock granted and outstanding under the Plan. No options were outstanding as of March 31, 2016 under the Plan.

There were no securities issued from the Plan during each of the three months ended March 31, 2016 and 2015.

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 months ended March 31, 2016 and 2015.

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 March 31, 2016, 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 three months ended March 31, 2016, no customer accounted for more than 10% of sales and three customers accounted for 28.5%, 11.4% and 11.0% of accounts receivable, respectively. No supplier accounted for greater than 10% of raw material purchases.

For the three months ended March 31, 2015, one customer accounted for 19.7% of sales and one supplier accounted for 29.5% of raw material purchases and one customer accounted for 17.3% of accounts receivable.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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

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

Business Overview & Recent Developments

The China Food and Drug Administration ("CFDA") promulgated Good Manufacturing Practices for Pharmaceutical Products (2010 revised version) (the "New GMP Standards") on February 12, 2011, which became effective on March 1, 2011. The New GMP Standards outlines the basic principles and standards for the manufacturing of pharmaceutical products and the management of quality controls in the manufacturing process in the PRC. Pursuant to those mandatory requirements, the upgrading of our two sterilization production lines was required to be completed by the end of 2013; and the upgrading of our oral solution production lines was required to be completed by the end of 2015. Per CFDA, there were over 7,000 Chinese pharmaceutical enterprises by the end of 2015. The competition in this industry is fierce. One of the key controls adopted by the CFDA to promote industry consolidation and improve the quality of drugs was to implement the New GMP Standards. Although 2015 was the deadline for new GMP upgrading, there were only approximately 1,200 pharmaceutical companies which received the new GMP certificates by the end of 2014. Insiders believed that thousands of pharmaceutical companies might be forced to shut down or merge with other entities due to unfulfilled new GMP upgrading.

Under this unfavorable economic environment, we aggressively promoted our sales efforts since 2015. Due to the fact that we only received new GMP certificate for the injectable production lines at our new manufacturing facility in November 2014, we missed drug biddings in several provinces prior to November 2014. Those missed biddings negatively impacted our market shares previously secured in those provinces, and dragged our sales in 2015. Nevertheless, we continued concentrating on enhancing our fundamentals. In January and December 2015, we completed the upgrading and received new GMP certificates for the tablet and capsule production lines, and cephalosporin production lines at our old factories, respectively. The upgrading of these oral solution production lines was completed before the deadline, which positioned us to better meet market demand.

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In order to support our existing products package, we have remained focused on pipeline development. We have experienced delays in obtaining approval for products in our pipeline due to revisions and enhancements in the approval criteria and processes issued by CFDA. These revisions result in additional supplemental materials and trials, higher cost, and longer approval time for certain applications. On March 5, 2016, the PRC State Council issued "Opinions on Carrying out Consistency Evaluation on Quality and Efficacy of Generic Drugs" (the "Opinions"). The Opinions require all chemical generic pipeline products to carry out "Consistency Evaluation" before final registration approval, which will further prolong the registration process. "Consistency Evaluation" requires currently marketed generic products to prove consistency in terms of quality, therapeutic effect, and substitutability during clinical trials with the original drug, which could enhance development of the pharmaceutical industry, ensure drug safety and effectiveness, promote the upgrading and restructuring of the pharmaceutical industry, and improve international competitiveness.

The status of our pipeline products remains the same as we reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

Market Trends

Pharmaceutical is one of the most stable industries for future growth. However, its growth rate has declined year by year recently due to certain negative impacts such as medical insurance cost control. According to the medicine research data firm Sinohealth CMH, the 2015 Chinese pharmaceutical market reached a scale of RMB1.38 trillion (in terms of retail pricing), which increased by 7.6% compared to prior year. The growth rate declined by 5.6% compared to prior year, and was a record low in a decade. National Bureau of Statistics data shows that the overall main business revenue of China's pharmaceutical industry was RMB2.55 trillion in 2015, increased by 9.1% compared to RMB 2.33 trillion in 2014. However, for 2015, the annual growth rate is 9.1%, declined by 3.8% compared to 12.9% in 2014.

The Chinese People's Political Consultative Conference (CPPCC) held a special meeting titled "To Deepen Health Reform" in Beijing on May 10, 2016 with National Development and Reform Commission (NDRC), Ministry of Finance (MOF), CFDA and other governmental departments participated. The participants concluded that China's healthcare reform had achieved significant initial results; however, the results so far had not fulfilled people's expectations. To be specific, the problems of inadequate and overly expensive medical services have not been fundamentally resolved. The participants therefore suggested:

(a) deepen reform of management model and compensation system of healthcare institutions
(b) promote the reform of medical insurance payment
(c) strengthen basic-level health care services, and promote the establishment of diagnosis and treatment hierarchy
(d) strengthen medical and health information technology to promote the realization of information sharing among different healthcare institutions
(e) strengthen the leadership of healthcare reform to reduce cost and form synergy

We believe that Chinese pharmaceutical enterprises have the opportunity to enjoy a "golden decade" along with China's economic growth, consumption upgrade, aging population, healthcare reform progress, and urbanization; however, the challenges remain due to low industrial concentration, small company size, unfulfilled financing leverage, industrial upgrading and M&A demands.

Results of Operations for the Three months ended March 31, 2016

Under the industrial reform and modification background guided by the government's healthcare reform policies, we actively completed the new GMP upgrading for the majority of our current production facility, and have been aggressively promoting our sales to regain our original market shares. Although there was no immediate reversal of sales trends so far due to the special characteristics of pharmaceutical industry, we strongly believe that our current operations and financial position will allow us to have a foundation for steady business growth in the future.

Net loss for the three months ended March 31, 2016 was $1.6 million, compared to net loss of $4.1 million for three months ended March 31, 2015. Our net loss for the three months ended March 31, 2016 was significantly less than that in the same period 2015, which was mainly due to the decrease in bad debt expense.

Revenue

Revenue decreased by 36.1% to $3.6 million for the three months ended March 31, 2016, as compared to $5.7 million for the three months ended March 31, 2015. This decrease was primarily caused by several missed provincial tenders back in 2014 due to the fact that our new GMP certificates were not received until November 2014, therefore we lost related market share and negatively impacted sales afterwards. To be specific, the original tender practice actually lasted until April 2015 given the necessary process and timing of tender and therefore did not create significant negative impact on the sales in first quarter 2015. Therefore, the sales decrease in the first quarter of 2016 compared to its corresponding period in 2015 reflected the outcome of that event. In addition, the government's healthcare-cost-controls also maintained continuous pressure upon our sales.

Set forth below are our revenues by product category in millions USD for the three months ended March 31, 2016 and 2015:

Product Category	Three Months Ended March 31,		Net Change	% Change
	2016	2015		
CNS, Cerebral & Cardio Vascular	$ 0.60	$ 0.70	$ -0.10	-14%
Anti-Viro/Injection & Respiratory	2.53	4.05	-1.52	-38%
Digestive Diseases	0.19	0.14	0.05	36%
Other	0.31	0.80	-0.49	-61%

The most significant revenue decrease in terms of dollar amount was in our "Anti-Viro/Infection & Respiratory" product category, which generated $2.53 million in sales revenue in the first quarter 2016 compared to $4.05 million a year ago, a decrease of $1.52 million. This decrease was mainly due to the decrease in sales of Cefaclor dispersible tablets in this category, which was caused by market fluctuation .

Sales in the "Other" category decreased by $0.49 million to $0.31 million in the first quarter 2016 compared to $0.80 million in the same period 2015, which was mainly due to the decrease in sales of Vitamin B6, primarily affected by the market loss due to the missed drug tenders back in late 2014. Our "Digestive Diseases" category generated $0.19 million of sales in the first quarter 2016, compared to $0.14 million in the same period previous year, which represented an increase of $0.05 million.

Sales in our "CNS Cerebral & Cardio Vascular" category decreased by $0.10 million to $0.60 million in the first quarter 2016 compared to $0.70 million in the same period 2015.

Product Category	Three Months Ended March 31, 2016	2015
CNS, Cerebral & Cardio Vascular	17%	12%
Anti-Viro/ Infection & Respiratory	70%	71%
Digestive Diseases	5%	3%
Other	9%	14%

For the three months ended March 31, 2016, revenue breakdown by product category remained close to that of the prior year. Sales of the "Anti-Viro/Infection & Respiratory" products category represented 70% and 71% of total sales in the three months ended March 31, 2016 and 2015. The "CNS, Cerebral & Cardio Vascular" category represented 17% and 12% of total sales in the three months ended March 31, 2016 and 2015. The "Digestive Diseases" category represented 5% of total revenue in first quarter 2016 compared to 3% in first quarter 2015. The "Other" category represented 9% and 14% of revenues in the three months ended March 31, 2016 and 2015.

Cost of Revenue

For the three months ended March 31, 2016, our cost of revenue was $3.1 million, or 84.4% of total revenue, which represented a decrease of $1.4 million from $4.4 million, or 77.9% of total revenue, in the same period 2015. The decrease in cost of revenue during first quarter 2016 was due to the revenue decrease. The decrease in gross profit margin for the three months ended March 31, 2016 compared to the same period last year was mainly caused by the decrease in sales prices of certain products due to market fluctuation.

Inventory Obsolescence

We have had decreases in the sales estimates between the time when raw materials were purchased and the time when the sales performance is realized for certain products. We have also assessed the market value of our raw materials. As a result, we determined that certain inventory was slow moving or obsolete. Based on the developed estimates as of March 31, 2016 and 2015, we recognized an additional inventory obsolescence expense of ($0.1) million and $0.2 million for the three months ended March 31, 2016 and 2015, respectively.

Gross Profit and Gross Margin

Gross profit for the three months ended March 31, 2016 was $0.6 million, compared to $1.1 million in the same period 2015. Our gross profit margin in first quarter 2016 was 17.6% compared to 18.6% in the same period 2015. Without the effect of inventory obsolescence, management estimates that our gross profit would have been approximately 15.6% in the first quarter 2016 and 22.1% in the first quarter 2015.

On May 5, 2015, the National Development and Reform Commission issued "Notice on Enhancing Drug Price Reform" with the National Health and Family Planning Commission, Human Resources and Social Security and other departments, announced to cancel the government pricing upon the majority of drugs from June 1, 2015, and to improve drug purchasing mechanism, strengthen the medical insurance cost-control, enhance medical practices and price behavior regulation, and establish a market-oriented pricing mechanism for drugs. Going forward, under the macro-environment of medical insurance cost-control, we expect to see continued pricing pressures on most products.

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Selling Expenses

Our selling expenses for the three months ended March 31, 2016 and 2015 were both $1.0 million, which accounted for 26.6% and 17.4% of the total revenue in first quarter 2016 and 2015 respectively. Due to many adjustments in our selling processes under healthcare reform policies, despite the decrease in sales, we still need to maintain personnel and continue our sales activity to support the sales and collection of accounts receivable.

General and Administrative Expenses

Our general and administrative expenses for the three months ended March 31, 2016 were $0.3 million, compared to $0.5 million in the three months ended March 31, 2015. General and administrative expenses accounted for 8.8% and 8.3% of our total revenues in first quarter 2016 and 2015, respectively.

Research and Development Expense

Our research and development expenses for the three months ended March 31, 2016 were $0.1 million, a decrease of $0.1 million from $0.2 million in the three months ended March 31, 2015. Research and development expenses accounted for 2.6% and 2.8% of our total revenues in the first quarter 2016 and 2015, respectively.

Bad Debt Expense

Our bad debt expense for the three months ended March 31, 2016 was $0.6 million, compared to $3.2 million in the three months ended March 31, 2015. The decrease was due to having majority of accounts receivable balance fully allowed in 2014 and 2015 under the Company's revised allowance policy as they were over 720 days old.

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

The amount of accounts receivable that were past due (or the amount of accounts receivable that were more than 90 days old) was $5.8 million and $5.6 million as of March 31, 2016 and December 31, 2015, respectively.

The following table illustrates our accounts receivable aging distribution in terms of percentage of total accounts receivable as of March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
1 - 90 Days	3.2%	4.0%
90 - 180 Days	2.7%	2.2%
180 - 360 Days	4.2%	7.9%
360 - 720 Days	16.1%	14.6%
> 720 Days	73.8%	71.3%
Total	100.0%	100.0%

Our bad debt allowance estimate is currently the sum of 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 expense per actual write-offs as well as the changes of allowance for doubtful accounts. To the extent that our current allowance for doubtful accounts is higher than that of the previous period, we recognize a bad debt expense for the difference 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 $29.6 million and $28.6 million as of March 31, 2016 and December 31, 2015, respectively. The changes in the allowance for doubtful accounts during the years ended March 31, 2016 and 2015 were as follows:

	For the Three Months Ended March 31,	
	2016	2015
Balance, Beginning of Period	$28,644,398	$44,347,451
Bad debt expense	581,300	3,200,003
Foreign currency translation adjustment	373,005	220,035
Balance, End of Period	$29,598,703	$44,767,489

Loss from Operations

Our operating loss for the three months ended March 31, 2016 was $1.3 million, compared to $3.8 million in the same period 2015. The decrease in operating loss for this period is mainly due to the decrease in bad debt expense.

Interest Expense

Interest expense for the three months ended March 31, 2016 was $0.2 million, compared to $0.3 million in the same period 2015, which represented a decrease of $0.1 million.

Income Tax Expense

For the three months ended March 31, 2016 and 2015, our income tax rate was 15%. Income tax expense was ($0.02) million both for the three months ended March 31, 2016 and 2015, respectively. We renewed our "National High-Tech Enterprise" status from the PRC government in the third quarter of 2013. With this designation, for the years ending December 31, 2014, 2015 and 2016, we enjoy a preferential tax rate of 15% which is notably lower than the statutory income tax rate of 25%.

Net Loss

Net Loss for three months ended March 31, 2016 was $1.6 million, compared to net loss of $4.1 million for the three months ended March 31, 2015. The reduction in net loss was mainly due to the decrease in bad debt expense, which was partially offset by the decreased revenue.

For the three months ended March 31, 2016, loss per basic and diluted common share was $0.04, compared to loss per basic and diluted share of $0.09 for the three months ended March 31, 2015.

The number of basic and diluted weighted-average outstanding shares used to calculate loss per share was 43,579,557 for both the three months ended March 31, 2016 and 2015.

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operations and short-term bank loans. Our cash and cash equivalents was $7.3 million, which represents 7.5% of our total assets as of March 31, 2016, as compared to $6.2 million, which represents 6.4% of our total assets as of December 31, 2015. All of the $7.3 million of cash and cash equivalents as of March 31, 2016 is considered to be reinvested indefinitely in Helpson and is not expected to be available for payment of dividends, for other payments to our parent company or to its shareholders.

As of March 31, 2016, we had a principal balance of $4.7 million in short-term bank loans. This loan is due on October 19, 2016. In addition, we entered into an eight-year construction loan facility with a bank on September 21, 2013. The total loan facility amount is RMB80,000,000 (approximately $13 million), which had been fully utilized through May 7, 2014. The current portion of the construction loan facility is $1.6 million as of March 31, 2016. Both the short-term bank loan and the construction loan facility are from the same bank. The cash flow generated from operating activities was used to fund the remaining construction of our GMP upgrading project in our new facility.

Based on our current operating plan, management believes that our cash provided by operations will be sufficient to meet our working capital needs and our anticipated capital expenditures, including expenditures for new formula acquisitions and the remaining new GMP upgrading related construction and equipment in our prior facility for the next twelve months. However, if circumstances change and we do not meet our operating plan as expected, we may be required to seek additional capital and/or to reduce certain discretionary spending, which could have a material adverse effect on our ability to achieve our business objectives. Notwithstanding the foregoing, 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 $1.3 million in the three months ended March 31, 2016 compared to ($2,239) for the three months ended March 31, 2015. This is mainly due to lower net loss and the outcome of the changes in our sales strategy: we enhanced the control of sales on credit, therefore improved the collection of accounts receivable and advances from customers; and we also enhanced the control over accounts payable in this period.

As of March 31, 2016, our accounts receivable was $4.8 million, compared to $5.9 million as of December 31, 2015.

As of March 31, 2016, net inventory was $9.9 million, remaining close to $9.7 million as of December 31, 2015.

Investing Activities

During the three months ended March 31, 2016, net cash used in investing activities was $39,248, compared to $47,106 for the three months ended March 31, 2015.

Financing Activities

Cash flow used in financing activities was ($305,835) in the three months ended March 31, 2016, while there was no comparable activity incurred in the three months ended March 31, 2015.

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 March 31, 2016 and December 31, 2015, the net assets of Helpson were $67,294,0000 and $68,240,000 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 March 31, 2016 and December 31, 2015 respectively. Since the amount that Helpson must set aside for the statutory surplus fund only accounts for 12.1% and 11.9%, respectively, of its total net assets as of March 31, 2016 and December 31, 2015, this reserve does not have a major impact on our liquidity. There were no allocations to the statutory surplus reserve accounts during the three months ended March 31, 2016.

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

Off-Balance Sheet Arrangements

As of March 31, 2016, we did not have any off-balance sheet arrangements.

Commitments

As of March 31, 2016, we were obligated to pay laboratories and others approximately $4.8 million over approximately the next four years upon completion of the various phases of contracts to provide CFDA production approval of medical formulas.

Critical Accounting Policies

Management's discussion and analysis of 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 effective as of March 31, 2016.

Changes in Internal Controls over Financial Reporting

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

PART II OTHER INFORMATION

Item 6. Exhibits

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

SIGNATURES

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

CHINA PHARMA HOLDINGS, INC.

Date: May 16, 2016

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

Date: May 16, 2016

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