CHINA PHARMA HOLDINGS, INC.
Form 10-Q/A
March 06, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No.1

(Mark One)

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

For the quarterly period ended September 30, 2011

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

For the transition period from _____ to _____

Commission File Number 001-34471

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check One):

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 43,529,557 shares of Common Stock, $.001 par value, were outstanding as of November 7, 2011.

EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q (the "Amended 10-Q") of China Pharma Holdings, Inc. (the "Company") amends the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011, filed with the Securities and Exchange Commission (the "SEC") on November 10, 2011 (the "Original 10-Q").

As the Company stated in its current report on Form 8-K filed with the SEC on March 2, 2012, in its financial statements for the nine months ended September 30, 2011 contained in the Original 10-Q, the Company classified payments made for medical formulas and patents that had not obtained the State Food and Drug Administration's (the "SFDA") production approval as intangible assets and recognized approximately $2 million of amortization expense on them. In connection with the receipt by the Company of comment letters from the SEC related to their review of certain of the Company's periodic filings, various communications between the staff of the SEC and the Company regarding specific comments contained in such letters, and in recognition of the staff's position on the issues set forth therein, the Company has determined that approximately $29 million of payments for medical formulas and patents that had not yet been approved by the SFDA at September 30, 2011 should be classified as advances for the purchase of intangibles. Consequently, the Company has determined that $2 million of amortization expense previously recognized on these payments should be reversed in the restated condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2011. As a result of the correction of the errors in its previously issued financial statements, the Company has restated its condensed consolidated balance sheet as of September 30, 2011, its condensed consolidated statement of operations and comprehensive income for the three and nine months ended September 30, 2011, and its condensed consolidated statement of cash flows for the nine months ended September 30, 2011.

In addition, as explained under Liquidity and Capital Resources section of Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations," two line items in the cash flow table ("trade accounts receivable" and "inventory") were revised considering the payments made with Banker's Acceptances that are more than 90 days from maturity that should not be treated as cash and cash equivalents under U.S. GAAP.

The Amended Form 10-Q amends and restates, in its entirety, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations," to update certain items due to the adjustments referenced above.

The Amended Form 10-Q amends and restates, in its entirety, Item 4 "Controls and Procedures," due to the errors in the Company's financial statements, to state that the Company had material weaknesses in its disclosure controls and procedures and internal control over financial reporting at September 30, 2011 as a result of the management's reassessment.

Except as set forth above, the Amended 10-Q is identical to the Original 10-Q. The Amended 10-Q does not reflect events occurring after the filing of the Original 10-Q and no attempt has been made in the Amended 10-Q to modify or update other disclosures as presented in the Original 10-Q. Accordingly, this Amended 10-Q should be read in conjunction with the Company's filings with the SEC subsequent to the filing of the Original Form 10-Q. Additionally, the Company has attached to the Amended 10-Q updated certifications executed as of the date of the Amended 10-Q by the Company's chief executive officer and chief financial officer as required by Sections 302 and 906 of the Sarbanes Oxley Act of 2002. These updated certifications are attached as Exhibits 31.1, 31.2, 32.1 and 32.2 to the Amended 10-Q.

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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 for interim financial information and in conjunction with the rules and regulations of SEC. Accordingly, they do not include all of the disclosures required by 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 notes to the aforementioned financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2010.

The results of operations for the three-month and nine-month periods ended September 30, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

CHINA PHARMA HOLDINGS, INC.

INDEX TO FINANCIAL STATEMENTS

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

	September 30, 2011 (As restated - Note 1)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$4,852,740	$3,692,086
Banker's acceptances	132,170	-
Trade accounts receivable, less allowance for doubtful accounts of $3,221,726 and $3,317,017, respectively	68,715,909	61,947,737
Other receivables, less allowance for doubtful accounts of $39,070 and $15,669, respectively	64,037	65,019
Advances to suppliers	5,265,650	5,311,896
Inventory	26,621,902	20,388,935
Deferred tax assets	518,906	528,684
Total Current Assets	106,171,314	91,934,357
Advances for purchases of property and equipment and intangible assets	35,343,431	29,896,334
Property and equipment, net of accumulated depreciation of $3,436,182 and $2,695,840, respectively	6,209,618	6,372,487
Intangible assets, net of accumulated amortization of $2,876,612 and $2,342,081, respectively	3,219,074	3,547,763
TOTAL ASSETS	$150,943,437	$131,750,941
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$3,121,805	$4,937,781
Accrued expenses	136,684	98,206
Accrued taxes payable	3,295,015	2,386,019
Other payables	413,696	92,077
Advances from customers	1,667,848	1,208,988
Other payables - related parties	651,563	303,644
Short-term notes payable	3,913,263	3,781,119
Total Current Liabilities	13,199,874	12,807,834
Long-term deferred tax liability	114,772	71,673
Derivative warrant liability	-	934,260
Total Liabilities	13,314,646	13,813,767
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; 43,529,557 shares and 43,404,557 shares outstanding, respectively	43,530	43,405

Additional paid-in capital	23,391,425	23,252,476
Retained earnings	100,164,599	85,017,024
Accumulated other comprehensive income	14,029,237	9,624,269
Total Stockholders' Equity	137,628,791	117,937,174
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$150,943,437	$131,750,941

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011 (As restated - Note 1)	2010	2011 (As restated - Note 1)	2010
Revenue	$20,987,725	$18,680,390	$58,708,134	$50,414,254
Cost of revenue	13,472,804	11,055,254	37,041,618	29,610,973
Gross profit	7,514,921	7,625,136	21,666,516	20,803,281
Operating expenses:				
Selling expenses	1,006,815	449,295	2,410,516	1,653,763
General and administrative expenses	621,336	873,157	2,525,230	2,420,412
Bad debt expense	(76,187)	107,186	(185,463)	215,707
Total operating expenses	1,551,964	1,429,638	4,750,283	4,289,882
Government subsidy income	968	-	146,415	465,663
Income from operations	5,963,925	6,195,498	17,062,648	16,979,062
Other income (expense):				
Interest income	1,241	1,147	5,656	13,305
Interest expense	(62,438)	(37,667)	(184,874)	(139,788)
Derivative gain	-	429,687	934,260	1,795,196
Net other income	(61,197)	393,167	755,042	1,668,713
Income before income taxes	5,902,728	6,588,665	17,817,690	18,647,775
Income tax expense	(927,845)	(674,051)	(2,670,115)	(1,796,749)
Net income	4,974,883	5,914,614	15,147,575	16,851,026
Other comprehensive income - foreign currency translation adjustment	1,556,979	1,774,575	4,404,968	2,192,273
Comprehensive income	$6,531,862	$7,689,189	$19,552,543	$19,043,299
Earnings per Share:				
Basic	$0.11	$0.14	$0.35	$0.39
Diluted	$0.11	$0.14	$0.35	$0.39

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 Nine Months Ended September 30,	
	2011 (As restated - Note 1)	2010
Cash Flows from Operating Activities:		
Net income	$15,147,575	$16,851,026
Depreciation and amortization	1,081,890	1,271,251
Stock based compensation	139,074	281,587
Derivative gain	(934,260)	(1,795,196)
Changes in assets and liabilities:		
Trade accounts receivable	(9,693,404)	(4,394,468)
Other receivables	3,204	(69,154)
Advances to suppliers	228,319	(1,495,898)
Inventory	(274,331)	(5,239,859)
Deferred taxes	67,789	(193,953)
Trade accounts payable	(1,933,820)	277,275
Accrued expenses	309,977	(30,168)
Accrued taxes payable	812,897	609,646
Other payables	45,162	15,972
Advances from customers	410,195	(27,982)
Net Cash Provided by Operating Activities	5,410,267	6,060,079
Cash Flows from Investing Activities:		
Net investment in banker's acceptances	(130,135)	-
Advances for purchases of property and equipment and intangible assets	(4,334,490)	(6,927,360)
Purchase of property and equipment	(280,645)	(219,904)
Net Cash Used in Investing Activities	(4,745,270)	(7,147,264)
Cash Flows from Financing Activity:		
Proceeds from related party loan	347,919	227,903
Proceeds from issuance of notes payable	-	2,934,100
Payment of notes payable	-	(3,814,330)
Proceeds from exercise of warrants	-	2,583,000
Net Cash Provided by Financing Activity	347,919	1,930,673
Effect of Exchange Rate Changes on Cash	147,738	83,191
Net Increase in Cash and Cash Equivalents	1,160,654	926,679
Cash and Cash Equivalents at Beginning of Period	3,692,086	3,634,753
Cash and Cash Equivalents at End of Period	$4,852,740	$4,561,432
Supplemental Cash Flow Information:		
Cash paid for interest	$179,467	$139,494
Cash paid for income taxes	1,554,339	1,889,810

Noncash Investing and Financing Activities		
Accounts receivable collected with banker's acceptances	$5,161,084	$-
Inventory purchased with banker's acceptances	5,161,084	-

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

CHINA PHARMA HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

Organization and Nature of Operations – China Pharma Holdings, Inc., a Delaware corporation, owns 100% of Onny Investment Limited ("Onny"), a British Virgin Islands corporation, that in turn owns 100% of Hainan Helpson Medical & Biotechnology Co., Ltd ("Helpson"), which is 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.

The Foreign Investment Industrial Catalogue (the "Catalogue") jointly issued by the China's Ministry of Commerce and the National Development and Reform Commission (as the latest version is the year 2007 version) 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 our case. 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 from Helpson's three former shareholders on May 25, 2005 by entry into an Equity Transfer Agreement with such three parties on May 25, 2005. 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.

Through Helpson, the Company 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 has and continues to acquire well-accepted medical formulas to a 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 consolidation.

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

Condensed Financial Statements – The accompanying unaudited condensed consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting

principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company ("Management") believes the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2010.

CHINA PHARMA HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

These unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of Management, are necessary to present fairly the consolidated financial position and results of operations of the Company for the periods presented. Operating results for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Basic and Diluted Earnings per Common Share - Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings 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 earnings per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(As restated)		(As restated)	
Net income	$4,974,883	$5,914,614	$15,147,575	$16,851,026
Basic weighted-average common shares outstanding	43,529,557	43,393,642	43,463,165	43,306,075
Effect of dilutive securities:				
Warrants	-	-	-	186,203
Options	-	13,533	-	11,052
Diluted weighted-average common shares outstanding	43,529,557	43,407,175	43,463,165	43,503,330
Basic earnings per share	$0.11	$0.14	$0.35	$0.39
Diluted earnings per share	$0.11	$0.14	$0.35	$0.39

The following potential common shares were not included in the computation of diluted earnings per share as their effect would have been anti-dilutive:

	For the Nine Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Warrants with exercise prices of $3.00 to $3.80 per share	166,666	1,916,666	166,666	736,111
Options with an exercise price of $2.54 to $3.47 per share	310,000	200,000	310,000	133,333
Total	476,666	2,116,666	476,666	869,444

Recently Announced Accounting Standards - In January 2010, the FASB issued guidance to amend the disclosure requirements related to fair value measurements. The guidance requires the disclosure of roll forward activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs

(Level 3 fair value measurements). The guidance became effective for the Company as of January 1, 2011 and did not have a material impact on the condensed consolidated financial statements.

CHINA PHARMA HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In April 2010, the FASB issued guidance to clarify classification of an employee stock-based payment award when the exercise price is denominated in the currency of a market in which the underlying equity security trades. The guidance became effective for the Company as of January 1, 2011 and did not have a material impact on the condensed consolidated financial statements.

Reclassifications – The Company has reclassified certain 2010 amounts to conform to the 2011 presentation. The principal item was the reclassification of $25,501,003 from intangible assets to advances for purchases of intangible assets on the accompanying condensed consolidated balance sheet at December 31, 2010. The reclassifications had no effect on net income.

Restatements of Condensed Consolidated Financial Statements – As the Company explained under Note 4 to the condensed consolidated financial statements contained in its original quarterly report on Form 10-Q for the period ended September 30, 2011, the Company had classified payments made for medical formulas and patents that had not obtained the State Food and Drug Administration's (the "SFDA") production approval as intangible assets and had recognized $2,066,041 of amortization expense on them at September 30, 2011. The reason is that the Company believed it had obtained defensive assets at the dates they were acquired, and therefore the Company decided to start amortizing them from the dates acquired rather than the dates they were placed into production. However, the Company has subsequently reassessed the classification of these payments and has determined, based on the analysis further discussed in Note 5, that $29,209,776 of these payments at September 30, 2011 should have been classified as advances for the purchase of intangible assets rather than intangible assets because the amounts were for medical formulas and patents that have not been approved by the SFDA and they are refundable if SFDA production approval is not received. As a result of this reclassification, the $2,066,041 of amortization expense previously recognized on these payments has been reversed in the accompanying restated condensed consolidated financial statements for the three and nine months ended September 30, 2011. The results of the restatement were as follows:

Balance Sheet Amounts September 30, 2011	As Previously Reported	Adjustment	As Restated
Advances for purchases of property and equipment and intangible assets	$6,133,655	$29,209,776	$35,343,431
Intangible assets, net of accumulated amortization	30,330,505	(27,111,431)	3,219,074
Long term deferred tax assets	274,157	(274,157)	-
Total assets	149,119,249	1,824,188	150,943,437
Long-term deferred tax liability	-	114,772	114,772
Total liabilities	13,199,874	114,772	13,314,646
Retained earnings	98,481,501	1,683,098	100,164,599
Accumulated other comprehensive income	14,002,919	26,318	14,029,237
Total stockholders' equity	135,919,375	1,709,416	137,628,791
Total liabilities and stockholders' equity	149,119,249	1,824,188	150,943,437

CHINA PHARMA HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Statement of Operations and Comprehensive Income Amounts For the nine months ended September 30, 2011	As Previously Reported	Adjustment	As Restated
General and administrative expenses	$4,591,270	$(2,066,040)	$2,525,230
Total operating expenses	6,816,323	(2,066,040)	4,750,283
Income from operations	14,996,608	2,066,040	17,062,648
Income before income taxes	15,751,650	2,066,040	17,817,690
Income tax expense	(2,287,173)	(382,942)	(2,670,115)
Net income	13,464,477	1,683,098	15,147,575
Comprehensive income	17,843,127	1,709,416	19,552,543
Basic earnings per share	$0.31	$0.04	$0.35
Diluted earnings per share	$0.31	$0.04	$0.35

Statement of Operations and Comprehensive Income Amounts For the three months ended September 30, 2011	As Previously Reported	Adjustment	As Restated
General and administrative expenses	$2,687,376	$(2,066,040)	$621,336
Total operating expenses	3,618,004	(2,066,040)	1,551,964
Income from operations	3,897,885	2,066,040	5,963,925
Income before income taxes	3,836,688	2,066,040	5,902,728
Income tax expense	(544,903)	(382,942)	(927,845)
Net income	3,291,785	1,683,098	4,974,883
Comprehensive income	4,822,446	1,709,416	6,531,862
Basic earnings per share	$0.08	$0.03	$0.11
Diluted earnings per share	$0.08	$0.03	$0.11

Statement of Cash Flows Amounts For the nine months ended September 30, 2011	As Previously Reported	Adjustment	As Restated
Net income	$13,464,477	$1,683,098	$15,147,575
Depreciation and amortization	3,147,930	(2,066,040)	1,081,890
Deferred taxes	(315,153)	382,942	67,789
Net Cash Provided by Operating Activities	5,410,267	-	5,410,267

NOTE 2 - INVENTORY

Inventory consisted of the following:

	September 30, 2011	December 31, 2010

Raw materials	$ 21,222,383	$ 16,258,346
Finished goods	5,399,519	4,130,589
Total Inventory	$ 26,621,902	$ 20,388,935

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

CHINA PHARMA HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	September 30, 2011	December 31, 2010
Permit of land use	$ 440,896	$ 426,007
Building	2,386,017	2,305,445
Plant, machinery and equipment	6,123,744	5,734,222
Motor vehicle	144,617	139,733
Office equipment	200,607	124,817
Construction in progress	349,919	338,103
Total	9,645,800	9,068,327
Less: accumulated depreciation	(3,436,182)	(2,695,840)
Property and Equipment, net	$ 6,209,618	$ 6,372,487

Construction in progress consists of machinery and construction supplies that have been paid for, but are not yet completed and placed into production. Once the machinery is working or the facility is in use, it is moved into plant, machinery and equipment and depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Life - years
Permit of land use	40 - 70
Building	20 - 35
Plant, machinery and equipment	10
Motor vehicle	5 - 10
Office equipment	3-5

For the nine months ended September 30, 2011 and 2010, depreciation expense was $636,179 and $588,395, respectively.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets represent the cost of medical formulas approved for production by the SFDA. During the nine months ended September 30, 2011 or 2010, the Company did not obtain SFDA production approval for any medical formula and therefore there were no costs reclassified from advances to medical formulas.

Approved medical formulas are amortized from the date SFDA approval is obtained over their individually identifiable estimated useful life, which are 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 $445,710 and $682,856 for the nine months ended September 30, 2011 and 2010, respectively. Medical formulas typically do not have a residual value at the end of their amortization period.

The Company evaluates each approved medical formula for impairment at the date of SFDA approval, when indications of impairment are present and at the date of each financial statement. The Company's evaluation is based on an estimated undiscounted net cash flow model, considering currently available market data for the related drug and the Company's estimated market share. If the carrying value of the medical formula exceeds the estimated future net cash flows, an impairment loss is recognized for the excess of the carrying value over the discounted estimated future net cash flows. As a result of the evaluation, the Company has determined that each medical formula continues to provide benefits to the Company and no impairment was recognized during the nine months ended September 30, 2011 or 2010.

CHINA PHARMA HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

At September 30, 2011 and December 31, 2010, intangible assets consisted solely of SFDA approved medical formulas as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
September 30, 2011	$ 6,095,686	$ 2,876,612	$ 3,219,074
December 31, 2010	$ 5,889,844	$ 2,342,081	$ 3,547,763

Estimated future amortization of SFDA approved medical formulas for the three months ended December 31, 2011 and for each of the following five years is as follows:

Years Ending December 31:	
2011 (three months)	$ 172,305
2012	555,404
2013	553,998
2014	539,365
2015	429,888
2016	394,060
Thereafter	574,054
	$ 3,219,074

NOTE 5 – ADVANCES FOR PURCHASES OF INTANGIBLE ASSETS

In order to expand the number of medicines manufactured and marketed by the Company, the Company has entered into contracts with independent laboratories for the purchase of medical formulas and certain related patents. Although SFDA approval has not been obtained for these medical formulas at the dates of the contracts, the object of the contracts is for the purchase of SFDA-approved medical formulas once the SFDA approval process is completed. Among the medical formulas that are currently pending the SFDA approval, two of them are patented medical formulas, and the Company has received the title of one patent and is currently in the transfer process to receive the title of the other patent. The related patents have not expired.

Prior to entering into the contracts, the laboratories typically have completed all required research and development to determine the medical formula for and the method of production of the generic medicine. Since the laboratories are not eligible to apply for SFDA production approval, they usually collaborate with a production facility (such as the Company) and apply for the production approval in the name of the manufacturer. The Company buys the final products with the production approval from the SFDA and the laboratories have to complete the SFDA process from the point of the contract.

A typical SFDA approval process for the production of a generic medical product involves a number of steps that generally requires three to five years. If the medical formula is purchased at the point when the generic medical product receives the SFDA's approval for clinical study, which is very typical for the Company, the clinical study that follows will usually take from 1.5 to three years to complete. After the clinical study is completed, the results are submitted to the SFDA and a production approval application is filed with the SFDA. In most cases, it will take

between eight to eighteen months to prepare and submit the production approval application and obtain SFDA approval. Upon approving the generic medical product, the SFDA issues a production certificate and the Company can produce and sell the generic medical product. As a result of this process, SFDA approval is expected to be received in approximately two to five years from the dates of the medical formula contracts.

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Under the terms of the contracts, the laboratories are required to obtain production approval (on behalf of the Company) for the medical formulas from the SFDA. 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 SFDA, 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 purchasing an approved medical product. Accordingly, payments made prior to the issuance of production approval by the SFDA are recorded as advances for purchases of intangible assets.

To date, no formula has failed to receive SFDA 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.

NOTE 6 – RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2011, a member of the Company's board of directors advanced the Company $347,919. Total advances owing to the board member were $651,563 and $303,644 at September 30, 2011 and December 31, 2010, respectively, and are recorded as other payables – related parties on the accompanying condensed consolidated balance sheets.

NOTE 7 – NOTES PAYABLE

On September 30, 2010, the Company entered into a revolving line of credit with a bank in the amount of RMB 25,000,000 (approximately $3.9 million). The line of credit was renewed on the same terms effective September 30, 2011. The related note payable bears interest at an annual rate of 6.116% (based upon 110% of the PRC government current short term rate of 5.56%). Advances on the line of credit are due one year from the date of the advance and collateralized by certain land use rights and buildings. The outstanding balance due under the revolving line of credit was RMB 25,000,000 (approximately $3.9 million) at September 30, 2011. This amount has been classified as short-term notes payable in the accompanying condensed consolidated balance sheet at September 30, 2011. At September 30, 2011, the Company had no additional amounts available to it under the line of credit.

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 at September 30, 2011 and December 31, 2010 approximated their fair value because of either the immediate or short-term maturity of these financial instruments or because the underlying instruments bear interest rates that approximated current market rates.

NOTE 8 - 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.

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Undistributed earnings of Helpson, the Company's foreign subsidiary, since its acquisition, amounted to approximately $99.5 million at September 30, 2011. Those earnings, as well as the investment in Helpson of approximately $23.3 million, are considered to be indefinitely reinvested and, accordingly, no U.S. federal or state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. federal and state income taxes (net of an adjustment for foreign tax credits) and withholding taxes payable to the PRC. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits may be available to reduce a portion of the U.S. tax liability.

Under current tax law in the PRC, the Company is and will be subject to the following enterprise income tax rates:

Year	Enterprise Income Tax Rate
2011	15%
2012	15%
2013	15%
2014 and after	25%

The provision for income taxes consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(As restated)		(As restated)	
Current	$ 876,447	$ 722,452	$ 2,602,326	$ 1,990,702
Deferred	51,398	(48,401)	67,789	(193,953)
Net Income Tax Expense	$ 927,845	$ 674,051	$ 2,670,115	$ 1,796,749

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

NOTE 9 – DERIVATIVE WARRANT LIABILITY

On May 27, 2008 and on May 30, 2008, the Company issued warrants to purchase 1,250,000 shares of common stock at $2.80 per share and warrants to purchase 300,000 shares of common stock at $2.98 per share, respectively, exercisable for a period of three years. These warrants were never exercised and expired on May 27, 2011. If the Company had issued shares of common stock or common stock equivalents at a price per share less than the exercise price, the exercise price would have been multiplied by a fraction, the numerator of which would have been the number of shares of common stock outstanding immediately prior to such issuance plus the number of shares of common stock which the offering price for such shares of common stock or common stock equivalents would have

purchased at the closing price of the common stock on that date, and the denominator of which would have been the sum of the number of shares of common stock outstanding immediately prior to such issuance plus the number of shares of common stock so issued or issuable. Simultaneously with any adjustment to the exercise price, the number of shares of common stock that could have been purchased upon exercise of the warrants was increased or decreased proportionately, so that after such adjustment the aggregate exercise price payable for the adjusted number of shares would have been the same as the aggregate exercise price in effect immediately prior to such adjustment.

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The potential adjustment to the number of shares of common stock that could have been purchased upon exercise of the warrants caused the warrants to be a derivative liability. The derivative liability was adjusted to the fair value of the warrants at each reporting date using the Black-Scholes valuation model (which was not materially different from the fair value computed using a binomial valuation model) and, based on the following assumptions, the fair values were as follows:

	September 30, 2011	December 31, 2010	
Risk free interest rate	-	2.93	%
Expected life, in years	-	0.41	
Expected dividend rate	-	0	%
Volatility	-	67.21	%
Fair value	-	$ 934,260	

Changes to the derivative warrant liability were recognized in the results of operations and resulted in derivative gains of $0 and $934,260 for the three and nine months ended September 30, 2011, and derivative gains of $429,687 and $1,795,196 for the three and nine months ended September 30, 2010.

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 derivative warrant liability on a recurring basis because fair value is the primary measure for accounting. The Company also uses fair value to measure the value of the banker’s acceptance notes it holds. The Company values its derivative warrants using a valuation method explained above. 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 as of September 30, 2011 and December 31, 2010:

		Fair Value Measurements at Reporting Date Using		
Description	September 30, 2011	Level 1	Level 2	Level 3
Banker's acceptance notes	$ 132,170	$ -	$ 132,170	$ -
Total	$ 132,170	$ -	$ 132,170	$ -

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2010	Level 1	Level 2	Level 3
Derivatives	$ 934,260	$ -	$ -	$ 934,260
Total	$ 934,260	$ -	$ -	$ 934,260

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Changes to the derivative warrant liability included in the Level 3 fair value measurement for the nine months ended September 30, 2011 and 2010 were as follows:

	2011	2010
Balance, Beginning of Period	$ 934,260	$ 2,523,148
Derivative gain	(934,260)	(1,795,196)
Balance, End of Period	$ -	$ 727,952

NOTE 11 - STOCKHOLDERS' EQUITY

Preferred and Common Stock

The total number of authorized shares is 95,000,000 shares of common stock and 5,000,000 shares of preferred stock. The preferred stock may be issued in series with such designations, preferences, stated values, rights, qualifications or limitations as determined solely by the Company’s board of directors.

Warrants

As of September 30, 2011, the Company had warrants outstanding and exercisable to purchase an aggregate of 166,666 shares of the Company's common stock at exercise prices ranging from $3.00 to $3.80 per share, which expire from January 1, 2012 through May 16, 2013. At September 30, 2011, the warrants had a weighted-average exercise price of $3.39 per share, a weighted-average remaining contractual life of 1.5 years and a total intrinsic value of $0. Warrants to purchase 1,750,000 shares of common stock at $2.80 to $3.60 per share as further discussed in Note 9 expired unexercised during the second quarter of 2011. These warrants were treated as a derivative warrant liability at December 31, 2010.

Stock and Stock Option Plans and Grants

2009 Stock Option Plan

On September 2, 2009, the Company’s Board of Directors adopted, and on September 3, 2009 its stockholders approved, the 2009 Stock Option Plan of the Company (the “2009 Option Plan”), which gave the Company the ability to grant stock options and restricted stock to its employees or consultants, or employees or consultants of its subsidiaries and to the non-employee members of its Board of Directors or the board of directors of any of its subsidiaries. The 2009 Option Plan currently allows for awards of stock options and restricted stock for up to 1,000,000 shares of common stock. As of September 30, 2011, options to purchase an aggregate of 300,000 shares of common stock had been granted under the 2009 Option Plan, of which 40,000 have been exercised and 50,000 have failed to vest and have been forfeited. In connection with the adoption of the 2010 Long-Term Incentive Plan of the Company (the “2010 Incentive Plan”), the Company’s Board of Directors determined that no additional awards of stock options or restricted stock will be made under the 2009 Option Plan, and that the 2009 Option Plan will be terminated following the exercise or expiration of all stock options currently outstanding under such plan.

2010 Incentive Plan

On November 12, 2010, the Company's Board of Directors adopted, and on December 22, 2010 its stockholders approved, the 2010 Incentive Plan, which gave the Company the ability to grant stock options, restricted stock, stock appreciation rights and performance units to its employees, directors and consultants, or those who will become employees, directors and consultants of the Company and/or its subsidiaries. The 2010 Incentive Plan currently allows for equity awards of up to 4,000,000 shares of common stock.

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On May 25, 2011 the Company issued two-year options to purchase a total of 100,000 shares of its common stock from the 2010 Incentive Plan to two of its executive officers. The Company's Chief Executive Officer was granted non-qualified stock options to purchase 50,000 shares of common stock at an exercise price of $2.54 per share, the closing price of the Company's common stock on the day prior to the day of grant, expiring on May 25, 2013, of which 25,000 shares shall vest on May 25, 2012, and 25,000 shares shall vest on the three-month anniversary of the achievement of certain performance-based vesting criteria. The Company also granted its Chief Financial Officer non-qualified stock options to purchase 50,000 shares of common stock at an exercise price of $2.54 per share, the closing price of the Company's common stock on the day prior to the day of grant, expiring on May 25, 2013, of which 25,000 shares shall vest on April 28, 2012, and 25,000 shares shall vest on the three-month anniversary of the achievement of certain performance-based vesting criteria.

The grant-date fair value of the options of $0.71 per share, or $70,580 in total, was based on the grant-date closing market price of $2.54 per share and on the following weighted-average assumptions: risk free interest rate of 0.54%, expected dividend yield of 0%, expected volatility of 70.4% and an expected life of 1.0 years.

In addition on May 25, 2011 the Company granted 125,000 shares of common stock from the 2010 Incentive Plan to two of its executive officers valued at $317,500 based on the closing market price on the date of grant of $2.54 per share. The Company granted 75,000 shares of restricted stock to its Chief Executive Officer, of which (i) 50,000 shares shall vest on May 25, 2012, and (ii) 25,000 shares shall vest on the six-month anniversary of the achievement of certain performance-based vesting criteria. The Company granted 50,000 shares of restricted stock to its Chief Financial Officer, of which (i) 25,000 shares shall vest on May 25, 2012, and (ii) 25,000 shares shall vest on the six-month anniversary of the achievement of certain performance-based vesting criteria.

During the three months and nine months ended September 30, 2011, the Company recognized $57,109 and $139,075 respectively of compensation expense as general and administrative expenses related to stock and stock options granted in 2011 and 2010. At September 30, 2011, the total remaining unrecognized compensation expense related to stock options was $59,152, of which $9,224 is anticipated to be recognized in the fourth quarter of 2011 and $14,638 will be recognized in the first half of 2012. In addition, a total of $35,290 will be recognized upon the achievement of certain performance-based vesting criteria. As of September 30, 2011, the aggregate intrinsic value of the options was $0. At September 30, 2011, the total remaining unrecognized compensation expense related to stock grants was $246,193, of which $47,885 is anticipated to be recognized in the fourth quarter of 2011 and $71,307 will be recognized in the first half of 2012. In addition, a total of $127,000 will be recognized upon the achievement of certain performance-based vesting criteria. None of the performance based criteria had been met for the non-qualified stock options and restricted stock for the three months ended September 30, 2011.

NOTE 12 – 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.

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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

At September 30, 2011 one customer accounted for 10.1% of accounts receivable. At December 31, 2010, one customer accounted for 17.0% of accounts receivable.

For the nine months ended September 30, 2011, one customer accounted for 21.7% of sales. For the nine months ended September 30, 2010, one customer accounted for 33.3% of sales.

For the nine months ended September 30, 2011, purchases from one supplier accounted for 13.7% of raw material purchases. For the nine months ended September 30, 2010, purchases from three suppliers accounted for 44.4%, 13.7% and 12.0% of raw material purchases, respectively.

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

Disclosure Regarding Forward-Looking Statements

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 in "Risk Factors" in Item 1A of our Annual Report on Form 10-K/A for the year ended December 31, 2010 filed with the Securities and Exchange Commission ("SEC") and some of which are discussed in our other filings with the SEC. 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.

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. 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

We are principally engaged in the development, manufacture, packaging, marketing and distribution of generic and branded pharmaceutical products for a wide range of high incidence and high mortality conditions in The People's Republic of China (the "PRC"). All of our operations are conducted in the PRC, where our 8,000-square-meter manufacturing facility is located. With eight different production lines, we have the capability to manufacture pharmaceutical products in the form of dry powder injectables, liquid injectables, tablets, capsules, oral solutions and granules. Over 90% of our pharmaceutical products are sold on a prescription basis and have been approved for at least one or more therapeutic indications by the Chinese State Food and Drug Administration (the "SFDA") based upon demonstrated safety and efficacy.

At September 30, 2011, we manufactured 20 pharmaceutical products for a wide variety of diseases and medical indications, each of which may be classified into one of three general categories: a basic generic drug, which is a common drug in the PRC marketplace for which there is a very large market, a "super" or "first to market" generic drug, which is a generic Western drug that is new to the PRC marketplace, and a modern Traditional Chinese Medicine, which generally is a non-synthetic, plant-based medicinal compound of the type that has been widely used in the PRC for thousands of years, to which we apply modern production techniques to produce a pharmaceutical product in different formulations, such as tablets, capsules or powders. In selecting generic drugs to develop and manufacture, we consider several factors, including the number of other manufacturers currently producing the particular drug, the size of the market, the proposed or required method of distribution, the existing and expected pricing for the particular drug in the marketplace, the costs of manufacturing that drug, and the costs of acquiring or

developing the formula for that drug. We believe we have historically selected to manufacture generic drugs that have very large addressable markets and higher profit margins relative to other drugs being manufactured and distributed in the PRC.

In 2002, we built, and we currently own and operate, an approximately 8,000-square-meter manufacturing facility in Haikou, Hainan Province that supports eight modern, scalable production lines. We implement quality control procedures in compliance with standards for Good Manufacturing Practice, or GMP standards, and applicable SFDA regulations to ensure consistent quality in our products.

We market and sell our products through 16 sales offices covering all major cities and provinces in China. To comply with applicable Chinese law relating to sales of prescription drugs to certain hospitals and clinics, we also use a distribution system comprised of approximately 1,250 independent regional distributors. We have grown significantly in recent years, with our net revenues increasing from $21.8 million in 2006 to $74.4 million in 2010, representing a compound annual growth rate, or CAGR, of 36% during this period. Our net revenues increased by $8.3 million, or by 16%, to $58.7 million in the first nine months of 2011 as compared to $50.4 million in the comparable period of 2010. Our net income increased from $8.6 million in 2006 to $23.4 million in 2010, representing a CAGR of 28% during this period. Our net income decreased by $1.7 million to $15.1 million in the first nine months of 2011 as compared to $16.9 million in the comparable period in 2010. The nine-month net income figures for both 2011 and 2010 contain the effect of derivative gains.

We often have a seasonal pattern in our sales revenues throughout the year for a variety of reasons, including 1) the higher rates of occurrence of cerebral/cardio diseases and flu in the winter season and 2) Chinese New Year being in the first quarter. As a result, our fourth quarter revenues tend to be higher and our first quarter revenues tend to be lower.

We have a strong focus on bringing new and first-to-market generic medicines to market through the purchase of medical formulas from research institutions. As of September 30, 2011, in addition to our portfolio of 20 commercialized products, we had nine drugs at different stages of the SFDA registration process, including three that had passed SFDA technical analysis and entered clinical trials as follows:

- In the fourth quarter of 2010, we completed the clinical trial for Rosuvastatin, a generic form of Crestor, a drug for indication of high blood cholesterol level, and we have since submitted an application for production approval.

- During the third quarter of 2010, we completed the Phase I clinical trials of our novel cephalosporin-based combination antibiotic. In Phase I, the clinical trials focused on the study of clinical pharmacology as well as the evaluation of safety on the human body, through observing tolerance and pharmacokinetics to provide support for dosage and drug delivery design. We are currently in Phase II of the clinical trial.

- In 2010, we completed the clinical trials for Candesartan, a front-line drug therapy for the treatment of hypertension. Since then, we have completed all testing procedures for this new product, and we are currently waiting for the final production approval from the SFDA.

In addition to the products mentioned above, we have several other products (also with focus on our main therapeutic areas) pending SFDA technical review and plan to initiate clinical trials in the near future. We are also evaluating additional opportunities on an on-going basis, directed by the organic growth and market demands of China's pharmaceutical market. We are working closely with several pharmaceutical research institutions and universities to help us identify existing drugs and formulas that would fit well with our business model, thus paving the way to generate new products to support our revenue growth in the future. We remain focused on improving our product portfolio and increasing our internal growth, maintaining and developing new marketing channels, and using our existing sales network in the expanding markets in the PRC to raise our overall market share. The organic growth of the Chinese pharmaceutical market has had a positive affect on, and will continue to direct, our company's development.

The growth of China’s pharmaceutical market has largely been driven by China’s rapid economic growth. Increased healthcare spending by the Chinese government to reform the healthcare system has already greatly improved the accessibility to and desire for medical care. Important additional factors include: the aging of the population and the resulting increase in age-related disorders, the urban migration of the population, and improved awareness of self-health care.

The Healthcare Reform program announced in 2009 by the Chinese government is currently being implemented. After the official announcement of the Essential Drugs List (“EDL”) in late 2009, we have seen meaningful and notable increases in demand for the EDL products and also degradation in the profit margins in these same products. As the Healthcare Reform progresses, the pace of implementation has varied significantly from province to province. The wide ranging timeliness of the government Healthcare reform funding is also causing volatility in the sales of certain products in different regions. As a result, the effect of the pricing regulation change also varied significantly from province to province. In overall, the pricing environment for most pharmaceutical products continues to be challenging at this time because of the Healthcare Reform implementation.

We believe the regulators in the PRC want to see prices of the essential drugs affordable on the one hand, but permit drug companies a fair profit on the other hand. We think we are well positioned in the current environment since our product portfolio is well diversified. Pricing or volume change of one single product should not have a material impact on our overall profitability. Furthermore, our management team has been operating in the Chinese pharmaceutical industry for more than 20 years, and we are very experienced at adapting to changes. We will seek to remain flexible with our product mix to achieve our profitability goals.

Results of Operations

The following table presents our results of operations for the three-month and nine-month periods ended September 30, 2011 and 2010.

	Three Months Ended September 30th				Nine Months Ended September 30th		
	2011 As Restated (Note 1)	2010	Change	% Chg	2011 As Restated (Note 1)	2010	% Chg
Revenue	$ 20,987,725	$ 18,680,390	$ 2,307,335	12%	$ 58,708,134	$ 50,414,254	16%
Cost of Revenue	13,472,804	11,055,254	2,417,550	22%	37,041,618	29,610,973	25%
Gross Profit	7,514,921	7,625,136	(110,215)	-1%	21,666,516	20,803,281	4%
Selling Expenses	1,006,815	449,295	557,520	124%	2,410,516	1,653,763	46%
General and Admin Expenses	621,336	873,157	(251,821)	-29%	2,525,230	2,420,412	4%
Bad Debt Expense	(76,187)	107,186	(183,373)		(185,463)	215,707	
Government Subsidy Income	968	-	968		146,415	465,663	
Income from Operations	5,963,925	6,195,498	(231,573)	-4%	17,062,648	16,979,062	0%
Net Interest Income (Expense)	(61,197)	(36,520)	(24,677)		(179,218)	(126,483)	
Derivative Gain	-	429,687	(429,687)		934,260	1,795,196	
Income Tax Expense	927,845	674,051	253,794	38%	2,670,115	1,796,749	49%
Net Income	$ 4,974,883	$ 5,914,614	$ (939,731)	-16%	$ 15,147,575	$ 16,851,026	-10%
Basic Net Income per Share	$ 0.11	$ 0.14	$ (0.02)	-16%	$ 0.35	$ 0.39	-10%
Basic Weighted Average Shares Outstanding	43,529,557	43,393,642			43,463,165	43,306,075	
Diluted Net Income per Share	$ 0.11	$ 0.14	$ (0.02)	-16%	$ 0.35	$ 0.39	-10%
Diluted Weighted Average Shares Outstanding	43,529,557	43,407,175			43,463,165	43,503,330	

Three Months Ended September 30, 2011 and 2010

Revenue

For the three months ended September 30, 2011, our sales revenue increased by $2.3 million, or 12%, to $21.0 million from the $18.7 million we generated in the corresponding period of 2010.

Set forth below are our revenues by product category in millions USD for each of the three months ended September 30, 2011 and 2010.

Sales Revenue by Major Category (Dollars in Millions)

Product Category	Three Months Ended September 30		Net Change	% Change
	2011	2010		
CNS Cerebral & Cardio Vascular	$ 7.2	$ 5.9	$ 1.3	22%
Anti-Viro/ Infection & Respiratory	$ 8.2	$ 6.0	$ 2.2	38%
Digestive Diseases	$ 3.2	$ 2.4	$ 0.9	37%
Other	$ 2.3	$ 4.5	-$ 2.2	-48%

During the third quarter of fiscal 2011, our overall sales revenue grew by 12% on a year-over-year basis, led by the Anti-Viro Infection & Respiratory and also the Digestive Diseases categories. Sales in the Anti-Viro Infection & Respiratory category rose by 38% to $8.2 million from $6.0 million in the prior year period. Our performance in this category was impacted by outstanding sales growth of Cefaclor Dispersible Tablets and also Roxithromicyn. Both of these products are front-line antibiotics in hospitals. Our Cefaclor Dispersible Tablets are typical example of our differentiation strategy, which is especially popular in children and patients with swallowing issue. The “Digestive” category experienced an exciting growth of 37%, to $3.2 million from $2.4 million, mainly from Tiopronin, a drug prescribed for treatments of acute Hepatitis B and drug-induced liver damage. We have seen steady growth in the sales of Tiopronin since its introduction in mid-2009. Sales of CNS, or Cerebral & Cardio Vascular products also experienced continued growth, with revenues in this category increasing to $7.2 million from $5.9 million, or an increase of 22%. Sales of our "Other" category were lower by 48% compared to the same period one year ago. A couple of products from our "Other" category, including Vitamin B6, saw sales declines compared to the same quarter one year ago when these products had a surge in sales partly during the initial start of the implementation of EDL in 2010. The sales of Vitamin B6 in the past quarter were higher comparing to its sales prior to the implementation of EDL before the second quarter of 2010, but lower comparing to that right after the start of the EDL’s implementation.

Anti-Viro Infection & Respiratory once again was our largest category by sales in the third quarter of 2011 by capturing 39% of total revenue compares to 32% a year ago. CNS Cerebral & Cardio Vascular category came in second, representing 34% of total sales compares to 31% in the corresponding quarter a year ago. Sales of our Digestive Disease category has been rising steadily by reaching 15% of total sales in the third quarter of 2011 compares to 13% last year. Digestive Disease category has been gaining ground steadily over the past few quarters and has now overtaken the Other category which captured only 11% of total sales in the latest quarter compares to 24% a year ago.

Gross Margin and Gross Profit

Gross profit for the three months ended September 30, 2011 was $7.51 million, which was slightly lower compared to $7.63 million in the third quarter of 2010. Our gross margin for the third quarter of 2011 was 35.8%, compared to 40.8% in the corresponding quarter of 2010. We are seeing pricing pressure on many of our products, particularly antibiotics, although the pressure is not uniform across product lines. We expect current challenging pricing environment to persist for some time.

Pricing pressure has become more evident over the past few quarters as the effect of the Chinese government healthcare reform is being felt across all pharmaceutical products, especially in EDL related products. In terms of our gross margins by major categories, CNS Cerebral & Cardio Vascular category margins drifted a little to 43.4% from the third quarter 2010 gross margin of 44.5%. Gross margin for our Anti-Viro/Infection & Respiratory category decreased to 23.7% from 28.3%. Gross margin for our Digestive Diseases category decreased to 44.7% from 52.5%, and gross margin for our Other category fell to 42.5% from 46.5%.

While sales growth in our new and relatively higher-margin products helped to support overall margin, it was not enough to offset the sales growth of our lower-margin products. In the coming quarters, we expect to see continued pricing pressures, but believe our new products, such as Candesartan and Rosuvastatin, can help to support overall gross margin once they are launched.

Selling Expenses

Our selling expenses for the three months ended September 30, 2011 were $1 million, an increase of 124%, compared to $0.45 million for the three months ended September 30, 2010. Selling expenses were approximately 4.8% of revenue in the third quarter of 2011 compared to 2.4% during the comparable quarter a year ago. Some of this

increase reflects , and our total selling expenses can be quite volatile from quarter to quarter. Our selling expenses typically range between 2.5% to 5% of total revenue.

General Administrative Expenses

Our general and administrative expenses for the three months ended September 30, 2011 were $0.62 million, or 3% of total revenue, a decrease of $0.25 million, compared to $0.87 million, or 4.7% of total revenue, for the same period in 2010. Our general and administrative expenses tend to fluctuate between 3% to 5% of total revenue, and our third quarter 2011 general administrative expenses were in line with historical norms.

Bad Debt Expense and Account Receivables

In general, our normal credit or payments terms extended to customers are 90 days. This has not changed in recent years. Our customers are pharmaceutical distributors who sell to mostly government backed hospitals. Since hospital pharmacies in China typically take a very long time to pay for their pharmaceutical products, the age of our receivables from our customers tends to be long as well. Although these customers typically pay after the due date of the receivables, we have always been able to collect our receivables and have never had an uncollectible receivable from these customers.

The amount of accounts receivable that were past due (or the amount of accounts receivable that were more than 90 days old) was $48.8 million and $41.7 million as of September 30, 2011 and December 31, 2010, respectively. The following table illustrates our accounts receivable aging distribution in terms of percent of total accounts receivable as of September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
1 - 90 days	32.2	%	36.0	%
90 - 180 days	22.1	%	23.4	%
180 - 365 days	30.6	%	16.3	%
365 - 720 days	15.1	%	24.2	%
	100	%	100	%

Although we have not had to write off any receivables so far in our Company’s history, we do set aside an allowance for doubtful accounts. Our bad debt allowance estimate is currently the sum of 3.5% of accounts receivable that are less than 365 days old, 10% of accounts receivable that are between 365 days and 720 days old and 100% of accounts receivable amounts that are greater than 720 days old (although there were no amounts over 720 days old at September 30, 2011 or December 31, 2010).

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. As of September 30, 2011, our allowance for doubtful accounts was $3.22 million compared to $3.28 million as of June 30, 2011. The decrease in the allowance was mainly due to a decrease in our accounts receivable that is between 365 days old and 720 days old, and was recognized as bad debt benefit during the quarter ended September 30, 2011 of $76,187. This is compared to an increase in the allowance of $107,186 during the quarter ended September 30, 2010. The changes in the allowance for doubtful accounts during the nine months ended September 30, 2011 and 2010 were as follows (there were no write-offs or recoveries):

	For the Nine Months Ended September 30,	
	2011	2010
Balance, Beginning of Year	$ 3,317,017	$ 2,718,358
Bad debt expense (benefit)	(185,463)	215,707
Foreign currency translation adjustment	3,221,726	2,976,077
Balance, End of Year	$ 3,221,726	$ 2,976,077

Income from Operations

Our operating income for the three months ended September 30, 2011 was approximately $5.96 million, compared to $6.20 million for the same period in 2010, which represented a decrease of $0.23 million, or 3.7%. The decrease in operating income was mainly due to lower gross margins and higher operating expenses in the current period compared to the corresponding quarter one year ago.

Derivative Gains (Losses)

Changes to the derivative warrant liability are recognized in the results of operations. A derivative gain of $0.43 million was recorded during three months ended September 30, 2010. Our warrants which were subject to derivative liability expired in May of 2011 and we had no derivative profit or loss in three months period ended September 30, 2011. (Please see Note 9 in the Footnotes to the Financial Statement to our condensed consolidated financial statements contained in this report.)

Income Tax Expense

Income tax expense for the three months ended September 30, 2011 was $0.93 million, compared with $0.67 million in the same quarter a year ago. The corporate tax rate for our operating subsidiary in China was 11% in 2010, but increased to 15% for fiscal 2011. When our favorable income tax rate of 11% ended on December 31, 2010, our tax rate was going to increase to 24%. However, because we obtained the “National High-tech Enterprise” status, our tax rate will remain at 15% through 2013.

Net Income

Our net income for the three months ended September 30, 2011 was $4.97 million, a decrease of $0.94 million, or 16%, from $5.91 million for the three months ended September 30, 2010. The main reasons for the decrease in our net income are the decrease in gross margins and higher operating expenses. Our net income for the third quarter of 2010 also included a positive effect of $0.43 million of derivative gains.

Nine Months Ended September 30, 2011 and 2010

Revenue

For the nine months ended September 30, 2011, our sales revenue increased by $8.3 million, or 16.5%, to $58.7 million from the $50.4 million we generated in the corresponding period of 2010.

Set forth below are our revenues by product category in millions USD for each of the nine months ended September 30, 2010 and 2011.

Sales Revenue by Major Category (Dollar in Millions)

Product Category	Nine Months Ended September 30		Net Change	% Change
	2011	2010		
CNS Cerebral & Cardio Vascular	$ 18.6	$ 16.1	$ 2.6	16%
Anti-Viro/ Infection & Respiratory	$ 23.3	$ 17.6	$ 5.7	33%
Digestive Diseases	$ 8.4	$ 6.3	$ 2.1	33%
Other	$ 8.3	$ 10.4	-$ 2.1	-20%

During the first nine months of fiscal 2011, our overall sales revenue grew by 16.5% on a year-over-year basis, led by the Anti-Viro Infection & Respiratory and the Digestive categories. Sales in the Anti-Viro Infection & Respiratory category rose by 33% to $23.3 million from $17.6 million. Our performance in this category was impacted by outstanding sales growth of Cefaclor Dispersible Tablets and Roxithromicyn. Both of these products are front-line antibiotics in hospitals. Our Cefaclor Dispersible Tablets are typical example of our differentiation strategy, which is especially popular in children and patients with swallowing issue. The “Digestive” category continues to experienced vigorous growth of 33%, mainly from Tiopronin, a drug prescribed for treatments of acute Hepatitis B and drug-induced liver damage, and Omeprazole, the generic gastroesophageal reflux disease (GERD) drug. Sales of CNS Cerebral & Cardio Vascular products picked up in the second and third quarter which contributed to a nine-month year over year growth of 16%, with revenues in this category increasing to $18.6 million from $16.1 million. Sales of our "Other" category were lower compared to the same period one year ago mainly due to the volatility of Vitamin B6 sales.

In the first nine months of 2011, our Anti-Viro Infection & Respiratory category was once again the sales leader by generating 39.8% of all revenues compares to 34.9% in the corresponding period a year ago. CNS Cerebral & Cardio Vascular category came in second, capturing 31.7% of total sales compares to 31.9% in the corresponding quarter a year ago. Sales of our Digestive Disease category has been rising steadily by reaching more than 14.4% of total sales in the first nine months of 2011 compares to 12.6% last year. Digestive Disease category has been gaining ground steadily over the past few quarters and has now edged out the Other category which captured 14.1% of total sales in the nine months of 2011 compares to 20.6% a year ago.

Gross Margin and Gross Profit

Gross profit for the nine months ended September 30, 2011 was $21.7 million, which was approximately 4% higher compared to $20.1 million in the first nine months of 2010. Our gross margin for the first nine months of 2011 was 37%, compared to 41% in the corresponding nine months of 2010. We are seeing steady pricing pressure on many of our products, particularly antibiotics, although the pressure is not uniform across product lines. We expect current uncertain pricing environment to last for some time.

While sales growth in our new and relatively higher-margin products helped to support overall margin, it was not enough to offset the sales growth of our lower-margin products. In the coming quarters, we expect to see continued pricing pressures, but believe our new products can help to support overall gross margin once they are launched.

Selling Expenses

Our selling expenses for the nine months ended September 30, 2011 were $2.4 million, an increase of 46%, compared to $1.7 million for the nine months ended September 30, 2010. Selling expenses were approximately 4.1% of revenue in the first nine months of 2011 compared to 3.3% during the comparable quarter a year ago. Our selling expenses typically range between 2.5% to 5% of total revenue.

General Administrative Expenses

Our general and administrative expenses for the nine months ended September 30, 2011 were $2.5 million, an increase of $0.1 million, compared to $2.4 million for the same period in 2010. General and administrative expenses for both periods fall within our normal operating metrics.

Bad Debt Expense

Our bad debt benefit for the nine months ended September 30, 2011 were $0.19 million, compared to a bad debt expense of $0.22 million for the same period in 2010. Please see additional discussion of bad debt and account receivables in the section above named "Bad Debt Expense and Account Receivables".

Income from Operations

Our operating income for the nine months ended September 30, 2011 was approximately $17.1 million, compared to $17.0 million for the same period in 2010. The flat operating income growth accompanied with higher revenues is a reflection of currently lower gross margins for our products compared to a year ago.

Derivative Gains (Losses)

Changes to the derivative warrant liability are recognized in the results of operations and resulted in a derivative gain of $0.93 million during nine months ended September 30, 2011 and a derivative gain of $1.80 million in the corresponding period a year ago. (Please see Note 9 in the Footnotes to the Financial Statement to our condensed consolidated financial statements contained in this report.)

Income Tax Expense

Income tax expense for the nine months ended September 30, 2011 was $2.67 million, compared with $1.80 million in the first nine months a year ago. The corporate tax rate for our operating subsidiary in China was 11% in 2010, but increased to 15% for fiscal 2011. When our favorable income tax rate of 11% ended on December 31, 2010, our tax rate was going to increase to 24%. However, because we obtained the “National High-tech Enterprise” status, our tax rate will remain at 15% from 2011 through 2013.

Net Income

Our net income for the nine months ended September 30, 2011 was $15.1 million, a decreased of $1.7 million, or approximately 10%, from $16.9 million for the nine months ended September 30, 2010. The factors contributing for the lower net income figure in the current year period are higher selling expenses, followed by lower derivative gains and higher corporate income tax rate in the current year period.

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operations and short-term bank loans. As of September 30, 2011, our cash and cash equivalents outstanding was $4.85 million, which represents 3.25% of our total assets, an increase of $1.16 million from $3.69 million as of December 31, 2010. Of the $4.85 million of cash and cash equivalents at September 30, 2011, a total of $3.60 million 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 September 30, 2011, we had a principal balance of $3.91 million in short-term bank loans. The combination of cash flow generated from operating activities and cash flow from financing activities funded the new purchases of our intangible assets (drug formulas).

During the first nine months of 2011, we continued our vigorous collection efforts. While we have made progress, improving our accounts receivable collection continues to be a focus of our management team and we expect to make further progress in the quarters to come.

	Nine Months Ended September 30th	
	2011 As Restated (Note 1)	2010
Cashflow from Operations		
Net Income	15,147,575	16,851,026
Depreciation & Amortization	1,081,890	1,271,251
Changes in Assets & Liabilities		
Account Receivables	(9,693,404)	(4,394,468)
Advances to Suppliers	228,319	(1,495,898)
Inventory	(274,331)	(5,239,859)
Accounts Payable	(1,933,820)	277,275
Net Cash Provided by Operations	5,410,267	6,060,079
Cashflow from Investing Activties		
Advances for purchases of property & equipment and intangible assets	(4,334,490)	(1,615,399)
Purchases of Intangibles	-	(5,311,961)
Net Cash Used by Investing Activities	(4,745,270)	(7,147,264)
Net Cash Provided by Financing Activities	347,919	1,930,673
Effect of Exchange Rate change on Cash	147,738	83,191
Total Change in Cash	1,160,654	926,679
Cash & Equivalent Beginning Balance	3,692,086	3,634,753
Cash & Equivalent Ending Balance	$ 4,852,740	$ 4,561,432

Operating Activities:

Net cash provided by operating activities was $5.41 million in the nine months period ended September 30, 2011 compared to $6.06 million for the same period in 2010. The decrease in cash provided by operating activities was mainly due to lower net income in the period ended September 30, 2011 compared to the corresponding period in 2010.

At September 30, 2011, our accounts receivable were $68.7 million, an increase of $6.8 million from $61.9 million at December 31, 2010. Our receivables increased because our sales grew for the period by 16% and our collection was not enough to offset account receivable increases as a result of new sales. For the first nine months of fiscal 2011, $9.69 million was used to fund increases in Account Receivables, compared to $4.39 million for this category in the comparable period a year ago. As a common business practice in China, Banker's Acceptances (BAs) are often used to settle receivables and to make purchases instead of checks. During the nine months ended September 30, 2011, the Company received payment with BAs with a maturity of more than 90 days, and such BAs are not treated as cash and cash equivalent under U.S. GAAP. If cash equivalent treatment were to be applied to BAs with more than 90 days maturity, $4.53 million would have been used to fund increases in Account Receivables. Please see the discussion of the reconciliation with GAAP figures in a table below.

At September 30, 2011, total inventory was $26.6 million, an increase of $6.2 million from $20.4 million at December 31, 2010. Most of the inventory increase in the first nine months of 2011 was due to increased purchases of raw material inventory while the inventory increase in the nine months of 2010 was due to a temporary rise in finished goods. Cash usage on Inventory for the nine months period ended September 30, 2011 was $0.27 million as compared to $5.24 million in the comparable period for 2010. As mentioned in the above, we often use BAs to settle receivables and to make purchases. During the nine months ended September 30, 2011, the Company used BAs with a maturity of more than 90 days to pay for raw materials, and such BAs are not treated as cash and cash equivalent under U.S. GAAP. If cash equivalent treatment were to be applied to BAs with more than 90 days maturity, $5.44 million would have been used to fund increases in Inventory. Please see the discussion of reconciliation with GAAP figures below.

Reconciliation of Non-GAAP Adjusted Cash Usage for Accounts Receivables and Inventory
(Unaudited)

	For the Nine Months Ended Sepember 30,			
	2011		2010	
	Cash flow from Changes in Accounts Receivable	Cash Flow from Changes in Inventory	Cash flow from Changes in Accounts Receivable	Cash Flow from Changes in Inventory
Adjusted cash usage from changes in Account Receivables and Inventory (Non GAAP)	$ (4,532,320)	$ (5,435,415)	$ (4,394,468)	$ (5,239,859)
Amount received/paid with Banker's Acceptances of greater than 90 days maturity	5,161,084	(5,161,084)	-	-
Cash usage from changes in Account Receivables and Inventory as reported (GAAP)	$ (9,693,404)	$ (274,331)	$ (4,394,468)	$ (5,239,859)

For the period ending September 30, 2011, the decrease in our accounts payable was responsible for a cash usage of $1.93 million in the first half of 2011 while in the same period in 2010 a decrease in accounts payable resulted in cash addition of $0.28 million.

Investing Activities:

Net cash used in investing activities in the nine months ended September 30, 2011 was $4.75 million. The majority of the cash was used for our investments in new drug formulas during the period. This was a decrease of $2.4 million compared to the same period in 2010 of $7.15 million which also was used to purchase new drug formulas.

Financing Activities

Equity related financing: During the first nine months of 2010, we issued approximately 1.1 million shares of common stock for total proceeds of $2.58 million from the exercise of warrants that were issued in our 2007 offering of equity units. In the first nine months of 2011, we did not have any equity-related financing.

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During the first nine months of 2011, a related party lent our company $347,919 at an interest rate of 1% per annum and a term of six months.

"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 December 31, 2010 and 2009, the net assets of Helpson were $110,804,607 and $83,982,912, 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 $7,562,237 and $7,312,935 (fifty percent, or 50%, of registered capital) for the fiscal years ended December 31, 2010 and 2009. Since the amount that Helpson must set aside for the statutory surplus fund only accounts for 6.8% and 8.7%, respectively, of its total net assets, this reserve does not have a major impact on our liquidity.

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

There were no off-balance sheet arrangements during the nine-month periods ended September 30, 2011 or 2010.

Commitments

At September 30, 2011 and 2010, we had no material commitments except for those expenditures incurred in the ordinary course of business.

Critical Accounting Policies and Estimates

Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K/A for the year ended December 31, 2010, for disclosures regarding our critical accounting policies and estimates. The interim financial statements follow the same accounting policies and methods of computations as those for the year ended December 31, 2010. There were no new accounting policies and estimates during the three-month period ended September 30, 2011 that affected us in any material respect.

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 the information required by this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act are accumulated and communicated to the company's management, including its principal executive and principal financial officers, 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, in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 as originally filed with the SEC on November 10, 2011, our management, including our chief executive officer and chief financial officer, concluded that, as of September 30, 2011, our disclosure controls and procedures were effective at a reasonable assurance level.

However, for the reasons stated in Note 1 to our condensed consolidated financial statements included in this report, we determined a deficiency in the internal control over the classification of advances for purchases of intangible assets and the amortization of intangible assets constitutes a material weakness in internal control over financial reporting. As a result, our chief executive officer and chief financial officer have reevaluated our disclosure controls and procedures and have concluded that our disclosure controls and procedures were not effective as of September 30, 2011. Notwithstanding this material weakness, management, based upon the work performed during the restatement process, has concluded that our condensed consolidated financial statements in this report are fairly stated in all material respects in accordance with U.S. generally accepted accounting principles for each of the periods presented herein.

Changes in Internal Control Over Financial Reporting

Because we were not aware of this material weakness during the quarter ended September 30, 2011, there was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As of the date of this report, we have changed our controls over financial reporting of advances for purchases of intangibles and the reporting of intangibles and amortization thereof to insure that they are stated in all material respects in accordance with U.S. generally accepted accounting principles for each of the periods presented herein.

PART II. OTHER INFORMATION

Item 6. Exhibits

The exhibits set forth on the accompanying Exhibit Index have been filed as part of this Form 10-Q/A.

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: March 6, 2012	By:	/ s/ Zhilin Li Name: Zhilin Li Title: President and Chief Executive Officer (principal executive officer)
Date: March 6, 2012	By:	/s/ Frank Waung Name: Frank Waung Title: Chief Financial Officer (principal financial officer and principal accounting officer)

EXHIBIT INDEX

No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief 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