CHINA PHARMA HOLDINGS, INC.
Form 10QSB
November 14, 2007

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

FORM 10-QSB

(Mark One)

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

For the Quarterly Period Ended September 30, 2007

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

For the Transition Period from _________ to _________

Commission file number: 000-29523

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

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

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

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

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

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

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

As of September 30, 2007, 37,228,938 shares of China Pharma Holdings, Inc. common stock, par value $0.001 per share, were outstanding.

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

China Pharma Holdings, Inc.

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Item 1 Financial Statements (Unaudited)

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

	September 30, 2007	December 31, 2006

ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,715,650	$ 656,441
Trade accounts receivable, less allowance for doubtful accounts of $2,554,705 and $1,562,494, respectively	17,118,699	12,101,979
Other receivables, less allowance for doubtful accounts of $54,910 and $27,517, respectively	726,200	355,554
Deferred offering costs	--	59,390
Advances to suppliers	4,903,250	2,255,877
Inventory	13,716,136	10,277,887
Total Current Assets	38,179,935	25,707,128
Non-current Assets:		
Property and equipment, net of accumulated depreciation of $935,328 and $619,649, respectively	2,621,864	2,725,173
Intangible assets, net of accumulated amortization of $229,433 and $135,656, respectively	2,065,264	65,344
Deferred tax assets	17,403	16,736
Total Non-current Assets	4,704,531	2,807,253
TOTAL ASSETS	$42,884,466	$28,514,381
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$ 781,630	$ 477,291
Accrued expenses	193,154	104,216
Accrued taxes payable	175,084	167,419
Other payables	56,407	185,096
Advances from customers	195,977	141,871
Accounts payable -related parties	--	22,650
Short-term notes payable	6,794,296	6,533,649
Total Current Liabilities	8,196,548	7,632,192
Research and development commitments	33,255	31,980
Total Liabilities	8,229,803	7,664,172
Stockholders' Equity:		
Common stock, $0.001 par value, 60,000,000 shares authorized, 37,228,938 and 34,723,056 shares issued and outstanding, respectively	37,229	34,723
Additional paid-in capital	11,559,656	7,764,979
Foreign currency translation adjustment	1,886,200	663,871
Retained earnings	21,171,578	12,386,636
Total Stockholders' Equity	34,654,663	20,850,209
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$42,884,466	$28,514,381

See the accompanying footnotes to the unaudited condensed, consolidated financial statements.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	20
Revenue	$ 8,293,497	$ 5,015,272	$ 24,097,521	$ 13,72
Cost of revenue	4,413,042	2,521,205	13,018,566	7,15
Gross profit	3,880,455	2,494,067	11,078,955	6,56
Operating expenses:				
Selling expenses	422,098	42,966	896,128	21
General and administrative	328,743	100,650	1,912,266	33
Research and development	5,941	125,359	846,822	12
2007 Bad debt expense (recovery)	--	152,142	--	(2
Total operating expenses	756,782	421,117	3,655,216	64
Income from operations	3,123,673	2,072,950	7,423,739	5,92
Non-operating income (expenses):				
Interest income	4,400	408	29,808	
Interest expense	(50,857)	(39,872)	(166,698)	(8
Other income	7,549	--	1,498,093	
Total non-operating income (expense)	(38,908)	(39,464)	1,361,203	(8
Income before taxes	3,084,765	2,033,486	8,784,942	5,83
Income tax expense	--	(326,661)	--	(73
Net income	$ 3,084,765	$ 1,706,825	$ 8,784,942	$ 5,10
Comprehensive income - foreign currency translation adjustments	570,646	25,307	1,222,329	13
Comprehensive income	$ 3,655,411	$ 1,732,132	$ 10,007,271	$ 5,24
Basic and diluted earnings per common share	$ 0.08	$ 0.05	$ 0.24	$
Weighted-average common shares	37,228,938	34,723,056	36,935,208	34,72

outstanding ============ ============ ============ =======

See the accompanying footnotes to the unaudited condensed consolidated financial statements.

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

	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006
Cash Flows from Operating Activities:		
Net income	$ 8,784,942	$ 5,108,657
Depreciation and amortization	322,098	288,142
Changes in assets and liabilities:		
Trade accounts receivable	(4,440,513)	(5,405,382)
Other receivables	(349,117)	(99,868)
Advances to suppliers	(2,504,684)	152,181
Inventory	(2,965,836)	(2,618,835)
Deferred tax assets	--	8,029
Deferred offering costs	60,487	--
Trade accounts payable	279,420	354,002
Accrued expenses	83,034	11,071
Accrued taxes payable	--	(197,707)
Other payables	(134,647)	144,450
Advances from customers	47,448	31,586
Net Cash Used in Operating Activities	(817,368)	(2,223,674)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(77,313)	(169,508)
Purchase of intangible assets	(1,993,288)	--
Net Cash (Used) by Investing Activities	(2,070,601)	(169,508)
Cash Flows from Financing Activities:		
Proceeds from sale of common stock and warrants	3,797,183	--
Proceeds from short term notes payable	--	2,120,150
Net Cash Proceeds from Financing Activities	3,797,183	2,120,150
Effect of Exchange Rate Changes on Cash	149,995	5,199

Net Change in Cash	1,059,209	(267,833)
Cash and Cash Equivalents at Beginning of Period	656,441	461,220
Cash and Cash Equivalents at End of Period	$ 1,715,650	$ 193,387

See the accompanying footnotes to the unaudited condensed consolidated financial statements.

CHINA PHARMA HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of China Pharma Holdings, Inc. (the Company) and its subsidiaries were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company (Management) believes that the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-KSB report for the year ended December 31, 2006.

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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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

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

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

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

Basic and Diluted Earnings per Common Share - Basic and diluted earnings per common share are computed by dividing net income by the weighted-average number of common shares outstanding. As of September 30, 2007 potentially dilutive

securities includes warrants outstanding to purchase a total of 1,252,941 shares of Company common stock at an exercise price of $2.38 per share. These are not included in the computation of fully diluted earnings per share as the effect is anti-dilutive due to the exercise price of the warrants exceeding the market price of the stock at September 30, 2007. There are no anti-dilutive securities outstanding at September 30, 2006.

Recently Issued Accounting Pronouncements - In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and requires additional disclosures about fair value measurements. SFAS 157 aims to improve the consistency and comparability of fair value measurements by creating a single definition of fair value. The Statement emphasizes that fair value is not entity-specific, but instead is a market-based measurement of an asset or liability. SFAS 157 upholds the requirements of previously issued pronouncements concerning fair value measurements and expands the required disclosures. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, however earlier application is permitted provided the reporting entity has not yet issued financial statements for that fiscal year. The Company does not believe that the adoption of SFAS 157 will have a material effect on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159). This pronouncement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The impact of adopting SFAS 159 on the Company's consolidated financial statements, if any, has not yet been determined.

NOTE 2 - INVENTORY

Inventory consisted of the following:

	September 30, 2007	December 31, 2006
Raw materials	$10,622,087	$ 8,458,181
Work in progress	3,035,280	1,579,410

Finished goods	58,769	240,296
Total Inventory	$13,716,136	$10,277,887

NOTE 3 - INCOME TAXES

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

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According to federal law in the People's Republic of China (PRC), enterprises with foreign investment and foreign enterprises doing business in the PRC are generally subject to federal enterprise income tax at a rate of 30%. Effective at the beginning of 2006 and extending through 2007, the PRC granted the Company a tax holiday that allows the Company to be exempt from income taxes for the first two profitable years. This tax holiday further allows the Company to be exempt from 50% of income taxes during the third through the fifth years. The reduced tax rate for 2008 through 2010 is 15%. Additionally, Hainan province is considered a developing economic region which has a reduced statutory tax rate of 15%, which results in a tax holiday rate of 7.5% during the third through the fifth years of profitability.

The Company has a deferred tax asset based upon the temporary differences from the allowance for bad debt. 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 4 - NOTES PAYABLE

Short Term Notes Payable - During the third quarter of 2006, the Company borrowed a total of $2,196,113 from a bank. The loans bear interest with a range of 6.45% to 6.77%, principal and accrued interest are due July and August of 2007 and are collateralized by land use rights, machinery and equipment. On July 13, 2007 the Company renewed the loans with the bank. The renewed loan principal and accrued interest are due on April 25, 2008.

Short Term Notes Payable to Former Shareholders - In January 2006, the Company converted its dividend payable of $4,402,147 into short-term notes bearing interest at a rate of 2.25% per annum. As of September 30, 2007 these notes and accrued interest remain outstanding.

NOTE 5 - STOCKHOLDERS' EQUITY

On February 1, 2007, the Company completed an offering of units priced at $1.70

per unit consisting of one share of Company common stock and a warrant to purchase one-half of a share of Company common stock at an exercise price of $2.38 per share. The Company received gross proceeds in the aggregate amount of $4,259,900. The net proceeds, after deduction of related offering expenses of $462,717 amounted to $3,797,183. The Company issued an aggregate of 2,505,882 shares of common stock and issued three-year warrants to purchase an aggregate of 1,252,941 shares of Company's common stock to 17 accredited investors. The proceeds were allocated to the warrants based upon their fair value or $2,010,219, and the balance of the proceeds was allocated to the shares of common stock. The fair value of the warrants, determined using the Black-Scholes Option Pricing Model, was calculated using the following assumptions: risk free interest rate of 4.80%, expected dividend yield of 0%, expected volatility of 124.39% and an expected life of 3 years.

The common shares and the shares underlying the warrants have registration rights and, accordingly a registration statement was filed with the Securities Exchange Commission on March 30, 2007 within the 60 day period prescribed by the registration rights agreement. The registration statement was declared effective on May 4, 2007.

NOTE 6 - TRANSFERS OF TECHNOLOGY

During the first quarter of 2007, the Company entered into agreements to sell certain pharmaceutical formulas presently in the research and development stage with two separate transactions to third parties for an aggregate sales price of $1,479,792 which is recorded as other income, transfer (sales) tax of $73,990, which has been recorded as part of general and administrative expenses and $836,404 recorded as research and development expense in the accompanying statement of operations and comprehensive income for the nine months ended September 30, 2007. The amounts due under the contracts were collected during the second quarter of 2007.

During the third quarter of 2007, the Company entered into agreements to acquire certain pharmaceutical formulas from an unrelated party for cash for an aggregate purchase price of $1,993,388. This has been recorded under the caption Intangible assets in the accompanying balance sheet as of September 30, 2007.

NOTE 7 - CONTINGENCIES

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

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

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

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

This filing contains forward-looking statements. The words "anticipated," "believe," "expect", "plan," "intend," "seek," "estimate," "project," "could," "may," and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect China Pharma management's current views with respect to future events and financial performance and involve risks and uncertainties, including but not limited to changes in general economic and business conditions, changes in foreign, political, social, and economic conditions,

regulatory initiatives and compliance with governmental regulations, the ability to increase market share, and various other matters, many of which are beyond China Pharma's control. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated. Consequently, all of the forward-looking statements made in this filing are qualified by these cautionary statements and there can be no assurance of the actual results or developments.

I. The Nine Months Ended September 30, 2007 In Brief

During the nine months ended September 30, 2007, China Pharma continued to show sound growth and outstanding financial performance. For the nine months ended September 30, 2007, the Company's total revenue increased by over 75.62% to a record high of $24 million compared to $14 million for the nine months ended September 30, 2006. This rapid growth was due to increased sales of existing products and the products that were developed during the second half year of 2006. This was consistent with China Pharma's strategy of launching new products in an increasingly competitive market and exploring potential domestic markets.

The financial performance for the nine months ended September 30, 2007 improved compared to the nine months ended September 30, 2006. Gross profit increased by 68.64% to $11.08 million and net income, not including foreign currency translation adjustment, increased by 71.96% to $8.78 million. This growth was attributable to the development of new product processes and strengthening our marketing.

For the nine months ended September 30, 2007, earnings per common share increased 61.66% to $0.24 per share compared to $0.15 per share for the nine months ended September 30, 2006. China Pharma started working closely with a variety of professional pharmaceutical research institutions to deliver more functional products tailored to the demands of the end-user. Management's goals are centered on achieving stable profit growth. Accordingly, we operate the business based on strategic principles, which have proven successful. Thoroughly exploring the potential in the pharmaceutical field is the key to our success.

We are also concerned with corporate governance as a modern enterprise. In the near future, we will establish a more systematic and long lasting internal controls process for prospective development and the benefit of our shareholders.

II. Business Overview

China Pharma is primarily engaged in the research, development, manufacture, and marketing of pharmaceutical and nutritional supplements. During 2007, we launched two new products, Alginic Sodium Diester and Granisetron hydrochloride.

We plan to expand our biotechnology product series. Based on the foundation established by some of Helpson's widely recognized medicine labels such as Neurotrophicpeptide, we have launched and will continue to launch a variety of

biological medicine, including the injected hepatocyte growth-promoting factors, which are expected to fuel additional growth beyond that of Neurotrophicpeptide.

One of our products, Buflomedil Hydrochloride (including raw material, injection and troche) has been recognized in the following ways:

- Designated as the key technology project in Hainan in 2003 by Hai'kou Municipality.
- Received the best commercialized technology award in Hainan in 2004 by Hainan Scientific and Technological Result Examination Committee.
- Awarded the national key new products certificate in 2003 by the State Science and Technology Department, State Taxation Bureau, Ministry of Commerce, State Bureau of Quality Supervision, Inspection and Quarantine, and State Environmental Protection Bureau.

In 2003, Helpson attained GMP authentication and the prize as the best enterprise for supporting SARS medicine awarded by Hainan Food and Drug Administration, demonstrating our industry leadership. For the nine months ended September 30, 2007, our products have been distributed to more than 29 provinces, sovereignties, and autonomous regions around China. Our products have been sold in more than 29 provinces, sovereignties, and autonomous regions. We have 16 sales offices and approximately 680 proxy agents throughout the PRC. The main channels we use to deliver our products are as follows: (1) Distribution system (Proxy Agents); (2) Direct sale system to hospitals; (3) Distribution of products to end-market through local medical companies.

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

Additionally, on February 1, 2007, China Pharma fulfilled a fund raising equity offering of units priced at $1.70 each consisting of one share of common stock and a warrant to purchase one-half of a share of common stock at an exercise price of $2.38 per share. China Pharma received gross proceeds in the aggregate amount of $4,259,900. The net proceeds, after deducting the related offering expenses of $462,717 amounted to $3,797,183. In total, we issued 2,505,882 shares of common stock and issued three-year warrants to purchase an aggregate of 1,252,941 shares of common stock to 17 accredited investors.

III. Trend in the Market.

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

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

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

o External Risk

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

o Operation Risk

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

o Foreign Currency Risk

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

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

IV. Analysis of financial performance for the three months ended September 30, 2007

CHINA PHARMA HOLDING INC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
and COMPREHENSIVE INCOME
(unaudited)

	For the three months ended September 30,		Change	Varian
	2007	2006		
Revenue	$ 8,293,497	$ 5,015,272	$ 3,278,225	65.3
Cost of revenue	4,413,042	2,521,205	1,891,837	75.0
Gross profit	3,880,455	2,494,067	1,386,388	55.5
Operation expenses:				
Selling expenses	422,098	42,966	379,132	882.4
Genenral and administrative	328,743	100,650	228,093	226.6
Research and development	5,941	125,359	(119,418)	-95.2
Bad debt expense (recovery)	--	152,142	(152,142)	-100.0
Total operating expenses	756,782	421,117	335,665	79.7
Income from operations	3,123,673	2,072,950	1,050,723	50.6
Non-operating income(expenses):				
Interest income	4,400	408	3,992	978.4
Interest expense	(50,857)	(39,872)	(10,985)	27.5
Other income	7,549	--	7,549	
Total non-operating income(expense)	(38,908)	(39,464)	556	-1.4
Income before taxes	3,084,765	2,033,486	1,051,279	51.7
Income tax expense	--	(326,661)	326,661	-100.0
Net income	$ 3,084,765	$ 1,706,825	$ 1,377,940	80.7

Comprehensive income -foreign currency translation adjustments	570,646	25,307	545,339	2154.8
Comprehensive income	$ 3,655,411	$ 1,732,132	$ 1,923,279	111.0
Basic and diluted earnings per common share	$ 0.08	$ 0.05	$ 0.03	68.5
Weighted-average common shares outstanding	37,228,938	34,723,056	2,505,882	7.2

Revenues

Revenues for the three months ended September 30, 2007 is in the amount of around $8.3 million, there is an approximately $3.28 million (or 65.36%) increase as compared to the corresponding period in 2006. The dramatic improvement in sales revenue was due to the following reasons; on the demand side, taking advantage of the booming of China's economy, the demand for medical products increased a lot. On the supply side, our output has been expanded to cope with the increased market demands, more efforts have been put in marketing of our products, and distribution channels have been widened. Our matured products have been well-accepted by customers, the revenues from these products increased steadily (23% more than corresponding figure last year) and it contributes approximately $1.18 million to the total increase of revenues in this quarter. Some of the maturated products that achieved large increases are; Andrographolide has increased by 135.07%, Cefaclor has increased by 99.63%, Neurotrophicpetide increased by 72.58%, Buflomedil has increased by 64.12%. Products which had been introduced last year are in the maturity stage now, revenues from these products increased as well, and it contributes around $0.45 million to the total increase of revenues in this quarter. Some of those

products that show good increase in revenues are, Ozagrel has increased by $0.397 million. Finally, the new products that have been introduced this year matched with the market demand, and are well-recognized by the customers, and it contributes $1.39 million to the total increase in revenues this quarter, within this increase, Granisetron hydrochloride has contributed $0.779 million, and Alginic Sodium Diester has contributed $0.58 million.

Cost of revenue

Cost of revenue for the three months ended September 30, 2007 was approximately $4.41 million, it accounts for about 53.21% of the revenues, as compared to the $2.52 million costs for the third quarter last year, the amount has increased by $1.89 million or 75%, this was primarily due to the increase in sales volume this quarter.

Gross profit

Compared with the gross profits of the corresponding period in 2006 (gross profit $2.49 million, gross margin 49.73%), gross profit for the three months ended September 30, 2007 has increased by about $1.39 million or 55.59%, and reached at around $3.88 million, the gross margin is 46.79%. The improved profit was due to the substantially increase in revenues this period.

Selling Expenses

The selling expenses for the three months ended September 30, 2007 have increased a lot (by $379,132) and reached at $422,098, it represents 55.78% of the total operating expenses. During this year, to broaden our market share further, we have spent a lot of money in marketing of our products, 70 new salespersons have been recruited, in line with this, traveling expenses, office expenses and salaries have increased.

General & Administrative Expenses

General and administrative expenses incurred this quarter are $328,743; it stands for around 43% of the total operating expenses. It has increased by $228,093 as compared to the corresponding period last year. This was mainly caused by a large sum of expenses spend in design of new packaging style (amount to $94 thousands), and because the carrying amount of the intangible assets has increased, the amortization expenses of intangible asset have also increased (by around $34 thousands), and as a result of the increased sales volume, traveling fees and office expense have increased a lot as well.

Income from operations

Income from operations has increased by approximately $1.05 million and came to $3.12 million, which is, increased by 50.69%. This is a result of the 55.59% increase in gross profit.

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Interest income

Interest income has increased by $3,992 compared with the corresponding period last year, this was caused by the generous cash inflows this year and the resulted increase in cash balances.

Interest expense

Interest expense has increased by $10,985 for the year ended 30 September 2007; the reason was, a sum of loans (?12,000,000@6.4496% per year, and ?5,000,000@6.7721% per year) have expired and have been repaid, and shortly after the repayment, we entered into a new contract of loan, the amount is ?17,000,000 and the interest is 7.182% per year. As the interest rate increases, interest expenses increase as well.

Income tax expense

For the three months ended September 30, 2007, the company has no tax expense, because the company has been granted a tax holiday by the government, and this allowed the company to be exempted from income taxes in 2007.

Net income

Although expenses have been increased this quarter compared with last year, the huge increase in revenue and gross profit and exempted from income taxes made this quarter's net income improved to $3,084,765(1), that is, 80.73% higher than the net income of $1,706,825 for the three months ended September 30, 2006.

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(1) Exclude the effects of foreign currency translation.

V. Analysis of financial performance for the nine months ended September 30, 2007

CHINA PHARMA HOLDING INC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
and COMPREHENSIVE INCOME
(unaudited)

	For the nine months ended September 30, 2007	2006	Change	Varianc
Revenue	$ 24,097,521	$ 13,721,587	$ 10,375,934	75.6
Cost of revenue	13,018,566	7,151,898	5,866,668	82.0
Gross profit	11,078,955	6,569,689	4,509,266	68.6
Operation expenses:				
Selling expenses	896,128	213,350	682,778	320.0
Genenral and administrative	1,912,266	333,654	1,578,612	473.1
Research and development	846,822	124,715	722,107	579.0
Bad debt expense(recovery)	--	(28,349)	28,349	-100.0
Total operating expenses	3,655,216	643,370	3,011,846	468.1
Income from operations	7,423,739	5,926,319	1,497,420	25.2
Non-operating income(expenses):				
Interest income	29,808	588	29,220	4969.3
Interest expense	(166,698)	(87,690)	(79,008)	90.1
Other income	1,498,093	--	1,498,093	
Total non-operating income(expense)	1,361,203	(87,102)	1,448,305	-1662.7
Income before taxes	8,784,942	5,839,217	2,945,725	50.4

Income tax expense	--	(730,560)	730,560	-100.0
Net income	$ 8,784,942	$ 5,108,657	$ 3,676,285	71.9
Comprehensive income -foreign currency translation adjustments	1,222,329	137,964	1,084,365	785.9
Comprehensive income	$ 10,007,271	$ 5,246,621	$ 4,760,650	90.7
Basic and diluted earnings per common share	$ 0.24	$ 0.15	$ 0.09	61.6
Weighted-average common shares outstanding	36,935,208	34,723,056	2,212,152	6.3

Revenues

Revenues reached at $24 million at the end of September 30 2007, as compared to last year (about $14 million); there is an increase of $10 million, that is, 75.62%. All three quarters outperformed last year's corresponding figures, this is due to the improvement of our output and distribution channels, and increased market recognition of our products. Revenues from our matured products have increased dramatically, and the newly introduced products, due to the correct market targeting, are well-welcomed by the customers, and it brought us $3.46 millions of revenues.

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Cost of revenues

Cost of revenue for the nine months ended September 30, 2007 was approximately $13 million, it accFounts for about 54% of the revenues, as compared to the $7.2 million costs for the third quarter last year, the amount has increased by $5.87 million or 82.3%, this is a result of increased sales volume.

Gross profit

Compared with the gross profits for the nine month ended 2006 (gross profit $6.57 million, gross margin 47.88%), gross profit for the nine months ended September 30, 2007 has increased by approximately $4.51 million or 68.64%, and reached at around $11.08 million, the gross margin is 45.98%. The improved profit is due to the huge increase in revenues this period.

Selling Expenses

Selling expenses have increased by $0.68 million, reached at $0.89 million; it represents 24.51% of the total operating costs. Due to our marketing potency has been strengthened, the demand to our products increases. There is a great leap in our output to cope with the demand, and marketing expenses have increased as more salesperson's salaries and traveling expenses have to be paid.

General and administrative expenses

General and administrative expenses have increased by $1.58 million, reached at

$1.91 million; it represents 52.32% of the total operating costs. As more sales volumes have been achieved, more office expenses, and traveling fees have been incurred this year, and because the increase in intangible assets, more amortization expenses have been incurred as well. Also the launch of new products is the reason for the increase.

Income from operations

Due to the generous increase in gross profits, there was an increase in income from operations from approximately $5.93 million for the nine months ended 30 Sep 2006 to approximately $7.42 million for the nine months ended 30 Sep 2007. It is also due to the increase in revenues.

Other income

Due to the sale of the drug formula, approximately $1.5 million of incomes were earned for the nine months ended 30 September 2007. It accounts for about 6.22% of the revenues.

Income tax expense

For the nine months ended September 30, 2007, the company has no tax expense, because the company has been granted a tax holiday by the government, and this allowed the company to be exempted from income taxes in 2007.

Net income

Excluding the effects of foreign currency translation, net income from the first three quarters has increased by $3.68 million, and reached at $8.78 million. As compared to the last year's net income ($5.11 million), there is an increase of 71.96%. The increase is due to the large improvements in revenues, together with the other income earned.

VI. Analysis of the financial position

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

	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006
Cash Flows from Operating Activities:		
Net income	$ 8,784,942	$ 5,108,657
Depreciation and amortization	322,098	288,142
Changes in assets and liabilities:		
Trade accounts receivable	(4,440,513)	(5,405,382)
Other receivables	(349,117)	(99,868)
Advances to suppliers	(2,504,684)	152,181
Inventory	(2,965,836)	(2,618,835)

Deferred tax assets	--	8,029
Deferred offering costs	60,487	--
Trade accounts payable	279,420	354,002
Accrued expenses	83,034	11,071
Accrued taxes payable	--	(197,707)
Other payables	(134,647)	144,450
Advances from customers	47,448	31,586
Net Cash Used in Operating Activities	(817,368)	(2,223,674)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(77,313)	(169,508)
Purchase of intangible assets	(1,993,288)	--
Net Cash (Used) by Investing Activities	(2,070,601)	(169,508)
Cash Flows from Financing Activities:		
Proceeds from sale of common stock and warrants	3,797,183	--
Proceeds from short term notes payable	--	2,120,150
Net Cash Proceeds from Financing Activities	3,797,183	2,120,150
Effect of Exchange Rate Changes on Cash	149,995	5,199
Net Change in Cash	1,059,209	(267,833)
Cash and Cash Equivalents at Beginning of Period	656,441	461,220
Cash and Cash Equivalents at End of Period	$ 1,715,650	$ 193,387

At the end of 30 September 2007, the cash and cash equivalents balance reached at $1,715,650, compared with the figure in 30 September 2006, it has increased by around eight times. This is a combined result of an improvement in net cash used in operating activities and an increase in net cash proceeds from financing activities.

Net cash used in operating activities fell from negative $2,223,674 to negative $817,368; the improvement is partially due to the increased net income, and also because of the improved collection of trade accounts receivables, however, there is still a net outflow of cash from operating activities, because new products have been introduced, large amount of new material are purchased, and advances to suppliers have increased as well.

Cash outflows from investing activities have increased to $2,070,601; this is due to the purchase of intangible assets which cost the company $1,993,288.

Net cash proceeds from financing activities have increased to $3,797,183. The increase was due to the proceeds from sale of common stocks and warrants that have been taken place in February. On February 1, 2007, the company has issued 2,505,882 common stocks at a price of $1.70 per share, and every share with a three year embedded warrant to purchase one-half of a company's shares at an exercise price of $2.38 per share. The net proceeds from the offering of stock and warrants was $3,797,183, with $2,010,219 allocated to the warrants and the rest allocated to the shares of common stocks. The fair value of the warrants were determined based on the Black-Scholes Option pricing model, and the calculation is based on the following assumptions: risk free interest rate of 4.8%, expected dividend yield of 0%, expected volatility of 124.39%, and an expected life of 3 years. The common shares and the shares underlying the warrants have registration rights, and a registration statement was filled to the Securities Exchange Commission on March 30, 2007 within the 60 day period as prescribed by the registration rights agreement.

VII. Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements in the Company.

VIII. Recently Enacted Accounting Pronouncements

On January 1, 2006, we adopted SFAS No. 151, Inventory Costs - An Amendment of ARB No. 43, Chapter 4 (SFAS 151). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The effects of adoption of SFAS 151 were not material.

On January 1, 2006, we adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which revises SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123R also superseded APB 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Under SFAS 123R, share-based payments to employees, including the fair value of grants of employee stock options, are recognized in the income statement at their fair value, generally over the option vesting period. The effects of adoption of SFAS 123R were not material.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets--An Amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions (SFAS 153). SFAS 153 eliminated the exception from fair value measurement for non-monetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Non-monetary Transactions, and replaced it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The effects of adoption of SFAS 153 were not material.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and FASB No. 3, Reporting Accounting Changes in Interim Financial Statements. Statement 154 applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. It is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The effects of adoption of SFAS 154 were not material.

In June 2005, the FASB Emerging Issues Task Force (EITF) reached a consensus on Issue No.05-6, determining the Amortization Period for Leasehold Improvements. The guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The effects of adoption of EITF No. 05-6 were not material.

In February 2006, the FASB issued SFAS No. 155, accounting for Certain Hybrid Financial Instruments -- an amendment of FASB Statements No. 133 and 140 (SFAS 155). SFAS 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No.140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and related interpretations. SFAS155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to recognition as liabilities. SFAS 155 eliminates the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for the Company for all financial instruments acquired or issued beginning January 1, 2007. The impact of adoption of this statement on the Company's consolidated financial statements, if any, has not yet been determined.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140 (SFAS 140). SFAS 156 amends SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and related interpretations. SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset. It also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS 156 permits an entity to use either

the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. SFAS 156 is effective for the Company as of January 1, 2007. The impact of adoption of this statement on our consolidated financial statements, if any, has not yet been determined.

VX. Conclusion

The overall performance during the nine months ended September 30, 2007 was outstanding. As a public company in the pharmaceutical industry, we focused on product innovation. In order to create products that are innovative and tailored to the end user, we must concentrate on R&D. As a result, the Company will continue to actively pursue the development and distribution of high-quality products to the market.

Item 3 - Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

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

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

None.

Item 3 - Defaults upon Senior Securities

Not Applicable.

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

None.

Item 5 - Other Information

None.

Item 6 - Exhibits

(a) Exhibits

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

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

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

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

SIGNATURES

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

China Pharma Holdings, Inc.

Dated: November 13, 2007

By: /s/ Zhilin Li

Zhilin Li
Chief Executive Officer,
President and Director

Dated: November 13, 2007

By: /s/ Xinhua Wu

Xinhua Wu
Chief Financial Officer,
and Director