CHINA PHARMA HOLDINGS, INC.
Form 10-Q/A
March 15, 2011

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, 2010

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 o 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 (Do not check if a smaller reporting company)	Smaller reporting company x

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: 43,393,642 shares of Common Stock, $.001 par value, were outstanding as of November 8, 2010.

EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q (the "Amended Form 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, 2010, filed with the Securities and Exchange Commission (the "SEC") on November 10, 2010 (the "September 2010 Form 10-Q").

On March 11, 2011, the Company's management determined that the Company's financial statements:

- for the three month period ended March 31, 2010 and 2009, included in its Quarterly Report on Form 10-Q filed with the SEC on May 10, 2010 (the "March 2010 Form 10-Q");

- for the three- and six-month periods ended June 30, 2010 and 2009, included in its Quarterly Report on Form 10-Q filed with the SEC on August 9, 2010 (the "June 2010 Form 10-Q"); and

- for the three- and nine-month periods ended September 30, 2010 and 2009, included in the September 2010 Form 10-Q;

should no longer be relied upon due to errors in such financial statements with respect to the accounting for certain derivative instruments as discussed below.

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 (the "Warrants"). As described in greater detail in Note 9 to the unaudited consolidated financial statements of the Company contained in this Amended Form 10-Q ("Note 9"), the Warrants contained weighted average anti-dilution provisions that lower the exercise prices of the Warrants and increase the number of shares issuable upon exercise of the Warrants if the Company issues shares of common stock or common stock equivalents at a price per share less than the exercise price of the Warrants.

The Company was not required to account for the warrants as a derivative liability until January 1, 2009. On January 1, 2009, the Company applied the guidance of ASC Topic 815-40, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock, and it was determined that the potential adjustment to the number of shares of common stock that could be purchased upon exercise of the Warrants caused the Warrants to be a derivative liability. The application of the new guidance on January 1, 2009 resulted in the fair value of the Warrants being reclassified as a derivative liability and adjusted to their fair value at each reporting date, with the changes in the fair value recognized as a noncash expense or income.

The Company previously recognized the Warrants as permanent stockholders' equity and recognized no adjustments to their fair value through the statements of income. However, as a result of the change in accounting principle relating to the valuation and classification of warrants as a derivative warrant liability, the Company should have accounted for the Warrants as a derivative liability beginning on January 1, 2009, should have recognized the change in accounting principle on January 1, 2009 and should have recognized subsequent changes in the fair value of the Warrants as derivative gains or losses in the statements of income.

After discussions with the Audit Committee of its Board of Directors and the Company's independent registered public accounting firm, management has determined to:

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file an amendment to the March 2010 Form 10-Q, which will contain restated financial information for the three-month periods ended March 31, 2010 and 2009 reflecting the corrections made in response to these accounting errors;

- file an amendment to the June 2010 Form 10-Q, which will contain restated financial information for the three- and six-month periods ended June 30, 2010 and 2009 reflecting the corrections made in response to these accounting errors;

- file this Amended Form 10-Q, which will contain restated financial information for the three- and nine-month periods ended September 30, 2010 and 2009 reflecting the corrections made in response to these accounting errors;

As a result of the correction of the errors in its previously issued financial statements, the Company has restated its condensed consolidated balance sheets as of September 30, 2010, December 31, 2009 and September 30, 2009, its condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2010 and 2009, and its cash flows for the nine months ended September 30, 2010 and 2009. The restatements were as follows:

Balance Sheet Amounts	As Previously Reported	Restatement	As Restated
September 30, 2010			
Derivative warrant liability	$-	$727,952	$727,952
Total liabilities	11,032,117	727,952	11,760,069
Additional paid-in capital	24,041,616	(852,957)	23,188,659
Retained earnings	78,328,698	125,005	78,453,703
Total stockholders' equity	110,508,787	(727,952)	109,780,835
December 31, 2009			
Derivative warrant liability	$-	$2,523,148	$2,523,148
Total liabilities	10,544,965	2,523,148	13,068,113
Additional paid-in capital	21,178,114	(852,957)	20,325,157
Retained earnings	63,272,868	(1,670,191)	61,602,677
Total stockholders' equity	90,396,097	(2,523,148)	87,872,949
September 30, 2009			
Current assets	$70,014,382	$-	$70,014,382
Total assets	95,309,006	-	95,309,006
Current liabilities	10,098,285	-	10,098,285
Research and development commitments	36,563	-	36,563
Derivative warrant liability	-	2,226,754	2,226,754
Total liabilities	10,134,848	2,226,754	12,361,602
Common stock	42,279	-	42,279
Additional paid-in capital	21,066,338	(852,957)	20,213,381
Retained earnings	58,166,838	(1,373,797)	56,793,041
Foreign currency translation adjustment	5,898,703	-	5,898,703
Total stockholders' equity	85,174,158	(2,226,754)	82,947,404
Total liabilities and stockholders' equity	95,309,006	-	95,309,006

Statements of Operations and Comprehensive Income Amounts	As Previously Reported	Restatement	As Restated
For the Three Months Ended September 30, 2010			
Derivative gain	$-	$429,687	$429,687
Net other income (expense)	(36,520)	429,687	393,167
Income before income taxes	6,158,978	429,687	6,588,665
Net income	5,484,927	429,687	5,914,614
Comprehensive income	7,259,502	429,687	7,689,189
Basic and diluted earnings per share	$0.13	$0.01	$0.14
For the Three Months Ended September 30, 2009			
Derivative loss	$-	$(1,673,102)	$(1,673,102)
Net other expense	(20,480)	(1,673,102)	(1,693,582)
Income before income taxes	8,030,978	(1,673,102)	6,357,876
Net income	7,163,228	(1,673,102)	5,490,126
Comprehensive income	7,249,124	(1,673,102)	5,576,022
Basic and diluted earnings per share	$0.17	$(0.04)	$0.13

Statements of Operations and Comprehensive Income Amounts	As Previously Reported	Restatement	As Restated
For the Nine Months Ended September 30, 2010			
Derivative gain	$-	$1,795,196	$1,795,196
Net other expense	(126,483)	1,795,196	1,668,713
Income before income taxes	16,852,579	1,795,196	18,647,775
Net income	15,055,830	1,795,196	16,851,026
Comprehensive income	17,248,103	1,795,196	19,043,299
Basic and diluted earnings per share	$0.35	$0.04	$0.39
For the Nine Months Ended September 30, 2009			
Derivative loss	$-	$(1,963,177)	$(1,963,177)
Net other expense	(77,878)	(1,963,177)	(2,041,055)
Income before income taxes	16,838,722	(1,963,177)	14,875,545
Net income	15,127,019	(1,963,177)	13,163,842
Comprehensive income	15,306,104	(1,963,177)	13,342,927
Basic and diluted earnings per share	$0.36	$(0.05)	$0.31

Statements of Cash Flows Amounts	As Previously Reported	Restatement	As Restated
For the Nine Months Ended September 30, 2010			
Net income	$15,055,830	$1,795,196	$16,851,026
Derivative gain	-	(1,795,196)	(1,795,196)
For the Nine Months Ended September 30, 2009			
Net income	$15,127,019	$(1,963,177)	$13,163,842
Derivative loss	-	1,963,177	1,963,177

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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 the Securities and Exchange Commission ("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 our Annual Report on Form 10-K for the year ended December 31, 2009.

The results of operations for the three-month period and nine-month period ended September 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

CHINA PHARMA HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010	December 31, 2009
		(As Restated - Note 1)
ASSETS		
Current Assets:		
Cash and cash equivalents	$4,561,432	$3,634,753
Trade accounts receivable, less allowance for doubtful accounts of $2,976,077 and $2,718,358, respectively	56,792,742	51,238,339
Other receivables, less allowance for doubtful accounts of $21,880 and $3,556, respectively	132,280	78,525
Advances to suppliers	3,358,113	1,798,446
Inventory	19,861,057	14,233,073
Deferred tax assets	523,840	319,820
Total Current Assets	85,229,464	71,302,956
Advances for purchases of property and equipment and intangible assets	3,574,496	3,599,949
Property and equipment, net of accumulated depreciation of $2,661,208 and $2,020,462, respectively	6,394,538	6,705,873
Intangible assets, net of accumulated amortization of $2,082,188 and $1,359,048, respectively	26,342,406	19,332,284
TOTAL ASSETS	$121,540,904	$100,941,062
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$4,400,332	$3,957,923
Accrued expenses	55,043	47,435
Accrued taxes payable	2,180,851	1,528,691
Other payables	75,560	58,191
Advances from customers	1,030,766	1,037,693
Other payables - related parties	303,644	75,741
Short-term notes payable	2,985,921	3,802,726
Total Current Liabilities	11,032,117	10,508,400
Long-term research and development commitments	-	36,565
Derivative warrant liability	727,952	2,523,148
Total Liabilities	11,760,069	13,068,113
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; 43,393,642 shares and 42,308,350 shares outstanding, respectively	43,393	42,308
Additional paid-in capital	23,188,659	20,325,157
Retained earnings	78,453,703	61,602,677
Accumulated foreign currency translation adjustment	8,095,080	5,902,807

Total Stockholders' Equity	109,780,835	87,872,949
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$121,540,904	$100,941,062

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,	
	2010	2009	2010	2009
		(As Restated - Note 1)		
Revenue	$18,680,390	$15,522,953	$50,414,254	$42,116,290
Cost of revenue	11,055,254	8,979,083	29,610,973	23,724,155
Gross profit	7,625,136	6,543,870	20,803,281	18,392,135
Operating expenses:				
Selling expenses	449,295	807,231	1,653,763	2,013,915
General and administrative expenses	873,157	521,676	2,420,412	1,563,330
Bad debt expense (benefit)	107,186	(2,836,495)	215,707	(2,101,710)
Total operating expenses	1,429,638	(1,507,588)	4,289,882	1,475,535
Government subsidy income	-	-	465,663	-
Income from operations	6,195,498	8,051,458	16,979,062	16,916,600
Other income (expense):				
Interest income	1,147	3,956	13,305	25,265
Interest expense	(37,667)	(24,436)	(139,788)	(103,143)
Derivative gain (loss)	429,687	(1,673,102)	1,795,196	(1,963,177)
Net other income (expense)	393,167	(1,693,582)	1,668,713	(2,041,055)
Income before income taxes	6,588,665	6,357,876	18,647,775	14,875,545
Income tax expense	(674,051)	(867,750)	(1,796,749)	(1,711,703)
Net income	5,914,614	5,490,126	16,851,026	13,163,842
Other comprehensive income - foreign currency translation adjustment	1,774,575	85,896	2,192,273	179,085
Comprehensive income	$7,689,189	$5,576,022	$19,043,299	$13,342,927
Earnings per Share:				
Basic	$0.14	$0.13	$0.39	$0.31
Diluted	$0.14	$0.13	$0.39	$0.31

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

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

	For the Nine Months Ended September 30,	
	2010	2009
		(As Restated - Note 1)
Cash Flows from Operating Activities:		
Net income	$16,851,026	$13,163,842
Depreciation and amortization	1,271,251	986,310
Stock based compensation	281,587	-
Bad debt expense (benefit)	215,707	(2,101,710)
Derivative (gain) loss	(1,795,196)	1,963,177
Deferred tax assets	(193,953)	210,171
Changes in assets and liabilities:		
Trade accounts receivable	(4,610,175)	(10,841,625)
Other receivables	(69,154)	82,949
Advances to suppliers	(1,495,898)	1,170,103
Inventory	(5,239,859)	(1,742,681)
Trade accounts payable	277,275	2,772,775
Accrued expenses	(30,168)	(11,339)
Accrued taxes payable	609,646	393,724
Other payables	15,972	233,155
Advances from customers	(27,982)	109,238
Net Cash Provided by Operating Activities	6,060,079	6,388,089
Cash Flows from Investing Activities:		
Advances for purchases of property and equipment and intangible assets	(1,615,399)	(2,921,715)
Purchase of property and equipment	(219,904)	(255,273)
Purchase of intangible assets	(5,311,961)	(7,621,781)
Net Cash Used in Investing Activities	(7,147,264)	(10,798,769)
Cash Flows from Financing Activity:		
Proceeds from issuance of notes payable	2,934,100	3,799,775
Payments of notes payable	(3,814,330)	(2,484,468)
Borrowing from a related party	227,903	-
Proceeds from exercise of warrants	2,583,000	-
Net Cash Provided by Financing Activity	1,930,673	1,315,307
Effect of Exchange Rate Changes on Cash	83,191	13,001
Net Increase (Decrease) in Cash	926,679	(3,082,372)
Cash and Cash Equivalents at Beginning of Period	3,634,753	6,927,149
Cash and Cash Equivalents at End of Period	$4,561,432	$3,844,777
Supplemental Cash Flow Information:		
Cash paid for interest	$139,494	$103,143
Cash paid for income taxes	1,889,810	1,413,306

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.

Through Helpson, the Company manufactures and markets generic and branded pharmaceutical 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. Helpson also manufactures biochemical products, health products and cosmetics.

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 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 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 consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

These unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of Management, are necessary to present fairly the consolidated financial position and results of operations of the Company for the periods presented. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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.

Allowance for Doubtful Accounts Receivable - During 2009, the Company determined that its previous estimates of uncollectible accounts receivable was overstated. Based on an analysis of the economy and the pharmaceutical industry's bad debt experience rate, the Company revised its estimate of the doubtful accounts at September 30, 2009, which resulted in a net bad debt benefit during the nine months then ended of $2,101,710.

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

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,	
	2010	2009	2010	2009
		(As Restated)		
Net income	$5,914,614	$5,490,126	$16,851,026	$13,163,842
Basic weighted-average common shares outstanding	43,393,642	42,278,938	43,306,075	42,278,938
Effect of dilutive securities:				
Warrants	-	-	186,203	-
Options	13,533	-	11,052	-
Diluted weighted-average common shares outstanding	43,407,175	42,278,938	43,503,330	42,278,938
Basic earnings per share	$0.14	$0.13	$0.39	$0.31
Diluted earnings per share	$0.14	$0.13	$0.39	$0.31

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Warrants with exercise prices of $3.00 to $3.80 per share	1,916,666	2,969,607	736,111	2,969,607
Options with an exercise price of $3.47 per share	200,000	-	133,333	-
Total	2,116,666	2,969,607	869,444	2,969,607

Recently Enacted Accounting Standards - In October 2009, the Financial Accounting Standards Board (FASB) issued a new accounting standard which provides guidance for arrangements with multiple deliverables. The new standard requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In addition, the new standard eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. If certain requirements are met, revenue arrangements that contain tangible products with software elements that are essential to the functionality of the products are scoped out of the existing software revenue recognition accounting guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for us in the first quarter of 2011. Early adoption is permitted. We do not expect the

adoption of these accounting standards to have a material impact on our consolidated financial statements.

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 will become effective for us with the reporting period beginning January 1, 2011. The adoption of this new guidance is not expected to have a material impact on our financial statements.

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

Reclassifications – The Company has reclassified certain 2009 amounts to conform to the 2010 presentation. The reclassifications had no effect on net income.

Restatements of Condensed Consolidated Financial Statements – The Company previously recognized warrants issued in 2008 as permanent stockholders' equity and recognized no adjustments to their fair value through the statements of income. However, as a result of the change in accounting principle relating to the valuation and classification of warrants as a derivative warrant liability discussed in Note 9, the Company should have accounted for the 2008 warrants as a derivative liability beginning on January 1, 2009, should have recognized the change in accounting principle on January 1, 2009 and should have recognized subsequent changes in the fair value of the warrants as derivative gains or losses in the statements of income. As a result of these errors, the Company has restated its condensed consolidated balance sheets as of September 30, 2010, December 31, 2009 and September 30, 2009, its condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2010 and 2009, and its cash flows for the nine months ended September 30, 2010 and 2009. The restatements were as follows:

Balance Sheet Amounts	As Previously Reported	Restatement	As Restated
September 30, 2010			
Derivative warrant liability	$-	$727,952	$727,952
Total liabilities	11,032,117	727,952	11,760,069
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Total stockholders' equity	110,508,787	(727,952)	109,780,835
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Total stockholders' equity	90,396,097	(2,523,148)	87,872,949
September 30, 2009			
Current assets	$70,014,382	$-	$70,014,382
Total assets	95,309,006	-	95,309,006
Current liabilities	10,098,285	-	10,098,285
Research and development commitments	36,563	-	36,563
Derivative warrant liability	-	2,226,754	2,226,754
Total liabilities	10,134,848	2,226,754	12,361,602
Common stock	42,279	-	42,279
Additional paid-in capital	21,066,338	(852,957)	20,213,381
Retained earnings	58,166,838	(1,373,797)	56,793,041
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Total stockholders' equity	85,174,158	(2,226,754)	82,947,404
Total liabilities and stockholders' equity	95,309,006	-	95,309,006

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

Statements of Operations and Comprehensive Income Amounts	As Previously Reported	Restatement	As Restated
For the Three Months Ended September 30, 2010			
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Net income	5,484,927	429,687	5,914,614
Comprehensive income	7,259,502	429,687	7,689,189
Basic and diluted earnings per share	$0.13	$0.01	$0.14
For the Three Months Ended September 30, 2009			
Derivative loss	$-	$(1,673,102)	$(1,673,102)
Net other expense	(20,480)	(1,673,102)	(1,693,582)
Income before income taxes	8,030,978	(1,673,102)	6,357,876
Net income	7,163,228	(1,673,102)	5,490,126
Comprehensive income	7,249,124	(1,673,102)	5,576,022
Basic and diluted earnings per share	$0.17	$(0.04)	$0.13

Statements of Operations and Comprehensive Income Amounts	As Previously Reported	Restatement	As Restated
For the Nine Months Ended September 30, 2010			
Derivative gain	$-	$1,795,196	$1,795,196
Net other expense	(126,483)	1,795,196	1,668,713
Income before income taxes	16,852,579	1,795,196	18,647,775
Net income	15,055,830	1,795,196	16,851,026
Comprehensive income	17,248,103	1,795,196	19,043,299
Basic and diluted earnings per share	$0.35	$0.04	$0.39
For the Nine Months Ended September 30, 2009			
Derivative loss	$-	$(1,963,177)	$(1,963,177)
Net other expense	(77,878)	(1,963,177)	(2,041,055)
Income before income taxes	16,838,722	(1,963,177)	14,875,545
Net income	15,127,019	(1,963,177)	13,163,842
Comprehensive income	15,306,104	(1,963,177)	13,342,927
Basic and diluted earnings per share	$0.36	$(0.05)	$0.31

Statements of Cash Flows Amounts	As Previously Reported	Restatement	As Restated
For the Nine Months Ended September 30, 2010			
Net income	$15,055,830	$1,795,196	$16,851,026
Derivative gain	-	(1,795,196)	(1,795,196)
For the Nine Months Ended September 30, 2009			
Net income	$15,127,019	$(1,963,177)	$13,163,842

Derivative loss	-	1,963,177	1,963,177

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NOTE 2 - INVENTORY

Inventory consisted of the following:

	September 30, 2010	December 31, 2009
Raw materials	$ 11,988,237	$ 9,353,076
Finished goods	7,872,820	4,879,997
Total Inventory	$ 19,861,057	$ 14,233,073

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2010	December 31, 2009
Permit of land use	$ 420,519	$ 411,963
Building	2,275,741	2,229,442
Plant, machinery and equipment	5,651,132	5,223,872
Motor vehicle	137,933	135,127
Office equipment	123,209	109,440
Construction in progress	447,212	616,491
Total	9,055,746	8,726,335
Less: accumulated depreciation	(2,661,208)	(2,020,462)
Property and Equipment, net	$ 6,394,538	$ 6,705,873

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 three months ended September 30, 2010 and 2009, depreciation expense was $199,727 and $178,954, respectively. For the nine months ended September 30, 2010 and 2009, depreciation expense was $588,395 and $403,569, respectively.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets represent the costs of patents, trademarks, licenses, techniques and medical formulas. Medical formulas are amortized over the expected life of the related medicine once production and sales commence. Amortization expense relating to intangible assets was $228,840 and $248,491 for the three months ended September 30, 2010 and 2009, respectively, and was $682,856 and $582,741 for the nine months ended September 30, 2010 and 2009, respectively.

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

NOTE 5 – ADVANCES FOR PURCHASES OF INTANGIBLE ASSSETS AND PROPERTY AND EQUIPMENT

In order to expand the number of medicines manufactured and marketed by the Company, the Company has entered into purchase contracts with independent laboratories and university laboratories. The contracts are for the purchase of established medical formulas for which the related patents have expired (generic medicines). 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. If the Company enters into a contract prior to the determination of the medical formula for a medicine, contract costs incurred to establish the medical formula are recognized as research and development expense. The contracts with the laboratories are primarily for certification of the manufacturing process and authorization by the State Food and Drug Administration (the SFDA) to sell the generic medicines. Under the terms of each contract, the Company is required to make progress payments to the laboratory; however, the payments are fully refundable in the event that the laboratory fails to obtain SFDA certification of the generic medicine under the contract. Payments made prior to the completion of the related process are recorded as advances for purchases of intangible assets.

The Company is also increasing production capabilities with new machinery and facilities. As is common in the PRC, the Company prepays for much of the machinery and construction supplies. The prepayments are capitalized as advances for purchases of property and equipment until the construction begins or the machinery is delivered to the Company.

NOTE 6 – RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2010, a member of the Company's board of directors advanced the Company $227,903. Total advances owing to the board member were $303,644 and $75,741 at September 30, 2010 and December 31, 2009, respectively, and are recorded as other payables – related parties on the accompanying condensed consolidated balance sheets.

NOTE 7 – NOTES PAYABLE

On July 2, 2009, the Company entered into revolving line of credit with a bank, with the related note payable bearing interest at an annual rate of 5.31% and collateralized by certain land use rights, buildings, machinery and equipment. The revolving line of credit was paid in full during the third quarter of 2010.

On September 30, 2010, the Company entered into a new revolving line of credit with a bank in the amount of RMB 25,000,000 (approximately $3.7 million), with the related note payable bearing interest at an annual rate of 6.116%. Advances on the line of credit are due one year from the date of the advance and collateralized by certain land use right and buildings. The outstanding balance due under the revolving line of credit was RMB 20,000,000 (approximately $2,985,921 at September 30, 2010. This amount has been classified as short-term notes payable in the accompanying condensed consolidated balance sheet at September 30, 2010. The Company has an additional RMB 5,000,000 (approximately $0.7 million) available to it under the line of credit.

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 $77.6 million at September 30, 2010. Those earnings, as well as the investment in Helpson of approximately $23.3 million, are considered to be indefinitely reinvested and, accordingly, no U.S. federal or state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. federal and state income taxes (net of an adjustment for foreign tax credits) and withholding taxes payable to the PRC. Determination of the amount of unrecognized deferred U.S. income tax liability is not practical because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits may be available to reduce a portion of the U.S. tax liability.

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
2010	11%
2011	24%
2012 and after	25%

Deferred tax assets arising in the United States related primarily to the derivative warrant liability and net operating loss carry forwards have been fully valued against. The provision for income taxes consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Current	$ 722,452	$ 962,310	$ 1,990,702	$ 1,922,025
Deferred	(48,401)	(94,560)	(193,953)	(210,322)
Net Income Tax Expense	$ 674,051	$ 867,750	$ 1,796,749	$ 1,711,703

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. During the second quarter of 2010, the Company received an incentive payment from the taxing authority of the Hainan provincial government in the PRC totaling $465,663, which has been recorded as government subsidy income on the accompanying statements of operations and comprehensive income for the nine months ended September 30, 2010.

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. If the Company issues shares of common stock or common stock equivalents at a price per share less than the exercise price, then, the exercise price will be multiplied by a fraction, the numerator of which is the number of shares of common stock outstanding immediately prior to the 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 purchase at the closing price of the common stock on that date, and the denominator of which is 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 may be purchased upon exercise of the warrants is increased or decreased proportionately, so that after such adjustment the aggregate exercise price payable for the adjusted number of shares is the same as the aggregate exercise price in effect immediately prior to such adjustment.

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The Company was not required to account for the warrants as a derivative liability until January 1, 2009. On January 1, 2009, the Company applied the guidance of ASC Topic 815-40, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock, and it was determined that the potential adjustment to the number of shares of common stock that could be purchased upon exercise of the warrants caused the warrants to be a derivative liability. The application of the new guidance on January 1, 2009 resulted in the fair value of the warrants being reclassified as a derivative liability and adjusted to their fair value at each reporting date, with the changes in the fair value recognized as a noncash expense or income.

Upon adoption, a cumulative effect adjustment was recorded based on the amounts that would have been recognized if this guidance had been applied from the issuance date of the warrants. The following table illustrates the changes to the Company's consolidated balance sheet on January 1, 2009:

	December 31, 2008	Cumulative Effect Adjustment	January 1, 2009 As Restated
Derivative warrant liability	$ -	$ 263,577	$ 263,577
Additional paid-in capital	21,066,338	(852,957)	20,213,381
Retained earnings	43,039,819	589,380	43,629,199

The Company uses the Black-Scholes valuation model to measure the fair value of the warrants, and based on the following assumptions, the fair values were as follows:

	May 27, 2008		January 1, 2009		September 30, 2009		December 31, 2009		September 30, 2010	
Risk free interest rate	2.93	%	2.93	%	1.45	%	2.93	%	0.64	%
Expected life, in years	3.00		2.41		1.66		1.41		0.66	
Expected dividend rate	0	%	0	%	0	%	0	%	0	%
Volatility	67.21	%	67.21	%	79.26	%	67.21	%	73.59	%
Fair value	$852,957		$263,577		$2,226,754		$2,523,148		$727,952	

Changes to the derivative warrant liability are recognized in the results of operations and resulted in derivative losses of $1,673,102 and $1,963,177 for the three and nine months ended September 30, 2009 and derivative gains of $429,687 and $1,795,196 for the three and nine months ended September 30, 2010.

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.

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

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 derivative warrant liability is a level 3 measurement measured using a valuation model as explained above.

NOTE 10 - STOCKHOLDERS' EQUITY

During the first quarter of 2010, the Company received proceeds of $2,583,000 pursuant to the exercise of warrants to purchase 1,085,294 shares of common stock at an exercise price of $2.38 per share. The warrants were issued in conjunction with the Company's February 1, 2007 Unit Offering. On February 1, 2010, warrants to purchase 88,235 shares of common stock at an exercise price of $2.38 per share expired unexercised.

On May 17, 2010, the Company issued three-year warrants to purchase 150,000 shares of common stock to a consultant for services rendered. The exercise price is $3.00 per share for 75,000 shares and $3.80 per share for the remaining 75,000 shares. The value of the warrants of $116,993 was recorded as general and administrative expense in the accompanying financial statements as of the date of issuance. The fair value of the warrants issued was determined using the Black-Scholes Option Pricing Model, using the following assumptions: risk free interest rate of 1.30%, expected dividend yield of 0%, expected volatility of 67.0% and an expected life of three years. The exercise price of the warrants exceeded the market price of the common stock on the date of grant.

As of September 30, 2010, the Company has outstanding warrants to purchase an aggregate of 1,916,666 shares of Company's common stock at exercise prices ranging from $2.80 to $3.80 per share, which expire from May 29, 2011 through May 16, 2013.

On September 2, 2009, the board of directors of the Company adopted the 2009 Stock Option Plan, under which a total of 1,000,000 shares of the Company's common stock are available for issuance to directors, officers, employees and eligible consultants.

On April 28, 2010, the Company issued three-year options to purchase 200,000 shares of common stock under the 2009 Stock Option Plan to an executive officer of the Company. The exercise price is $3.47 per share based on the closing market price for the Company's common stock as of that date. Options to purchase a total of 50,000 shares will vest upon the achievement of certain performance milestones, and options to purchase the remaining 150,000 shares will vest ratably over one year from the date of grant. The fair value of the options of $226,560 was determined using the Black-Scholes Option Pricing Model, using the following assumptions: risk free interest rate of 1.61%, expected dividend yield of 0%, expected volatility of 67.6% and an expected life of 1.5 years.

During the nine months ended September 30, 2010, the Company recognized $164,954 of compensation expense as general and administrative expenses related to the above-mentioned options and the stock options to purchase 100,000 shares of common stock at $2.75 per share that were granted in 2009. The total remaining unrecognized compensation expense related to these options is $154,403. A total of $56,640 will be recognized upon the achievement of the performance goals stated in the option. The remaining $97,763 is anticipated to be recognized ratably over the remaining vesting periods in the amount of $42,829 and $54,934 during fiscal 2010 and 2011, respectively. As of September 30, 2010, the aggregate intrinsic value of the options was $0.

On June 23, 2010, the Company amended its articles of incorporation to increase the total number of authorized common shares from 60,000,000 shares to 95,000,000 shares, and to authorize 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.

CHINA PHARMA HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – CONTINGENCIES

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

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

NOTE 12 – CONCENTRATIONS

At September 30, 2010, one customer accounted for 20.3% of accounts receivable. At December 31, 2009, one customer accounted for 15.0% of accounts receivable.

For the nine months ended September 30, 2010, one customer accounted for 33.3% of sales. For the nine months ended September 30, 2009, two customers accounted for 24.4% and 12.6% of sales, respectively.

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. For the nine months ended September 30, 2009, purchases from three suppliers accounted for 34.3%, 30.1% and 16.1% 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 reader 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 employee, 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 for the year ended December 31, 2009 and some of which are discussed in our other filings with the Securities and Exchange Commission. These forward-looking statements are only estimates or predictions. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of risks facing our company, and actual events may differ from the assumptions underlying the statements that have been made regarding anticipated events.

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

Business Overview

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, 2010, 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 $8.7 million in 2005 to $61.7 million in 2009, representing a compound annual growth rate, or CAGR, of 63% during this period. Our net revenues increased by $8.3 million, or by 20%, to $50.4 million in the first nine months of 2010 as compared to the comparable period of 2009. Our net income increased from $3.8 million in 2005 to $20.2 million in 2009, representing a CAGR of 52% during this period. Our net income increased by $3.7 million or 28% to $16.9 million in the first nine months of 2010 as compared to the comparable period of 2009, due to a one-time adjustment of our estimate for bad debt allowance in the third quarter of 2009 and gains in derivatives. Without giving effect to this one-time adjustment and the gains in derivatives, our net income for the nine-month period in 2010 would have been approximately 20% higher than the comparable period in 2009. Please see the table entitled “Reconciliation of Non-GAAP Adjusted Net Income and Basic and Diluted EPS” contained in the Net Income section below for a reconciliation of these non-GAAP measures to US GAAP.

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 well as our own in-house research and development activities. As of September 30, 2010, in addition to our portfolio of 20 commercialized products, we had nine drugs at different stages of the registration process, including three which had passed SFDA technical analysis and entered clinical trials (including a new anti-drug-resistance antibiotic product), as follows:

- 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. Phase II of the trial has commenced.

- We completed the clinical trials earlier this year for Candesartan, a front-line drug therapy we developed 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.

- We continue to receive positive feedback from patients during our clinical trial of Rosuvastatin, a generic form of Crestor we are developing. The majority of the patients in the clinical trial have completed the treatment cycle, and the final phase of the trial is near completion.

In addition to the products mentioned above, we have several other products that 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 ongoing 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 and remain focused on creating a steady increase in new products and, in turn, revenue. We remain focused on improving our product portfolio and increasing our internal growth, maintaining and developing new marketing channels, and using our existing retail 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 is 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 last year by the Chinese government is now in its implementation stage. After the official announcement of the Essential Drugs List (“EDL”) in late 2009, we have seen gradual but meaningful and notable increases in demand for the EDL products. While the Healthcare Reform is unquestionably moving forward, the pace of implementation varies significantly from province to province. As a result, the effect of the pricing regulations also have varied significantly from province to province.

We continue to believe that 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, as our product portfolio is well diversified. Pricing or volume changes of one single product should not have a material impact on our overall profitability. Furthermore, our management team has been in the Chinese pharmaceutical industry for more than 20 years, and it is 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, 2010 and 2009 by using U.S. GAAP measures.

	Three Months Ended September 30th			Nine Months Ended September 30th		
	2010 (as restated)	2009 (as restated)	% Chg	2010 (as restated)	2009 (as restated)	% Chg
Revenue	$ 18,680,390	$ 15,522,953	20 %	$ 50,414,254	$ 42,116,290	20 %
Cost of Revenue	11,055,254	8,979,083	23 %	29,610,973	23,724,155	25 %
Gross Profit	7,625,136	6,543,870	17 %	20,803,281	18,392,135	13 %
Selling Expenses	449,295	807,231	-44 %	1,653,763	2,013,915	-18 %
General and Admin Expenses	873,157	521,676	67 %	2,420,412	1,563,330	55 %
Bad Debt Expense (Benefit)	107,186	(2,836,495)		215,707	(2,101,710)	
Income from Operations	6,195,498	8,051,458	-23 %	16,979,062	16,916,600	0 %
Derivative Gains (Loss)	429,687	(1,673,102)		1,795,196	(1,963,177)	
Income Tax Expense	(674,051)	(867,750)	-22 %	(1,796,749)	(1,711,703)	5 %
Net Income	$ 5,914,614	$ 5,490,126	8 %	$ 16,851,026	$ 13,163,842	28 %
Basic Net Income per Share	$ 0.14	$ 0.13	5 %	$ 0.39	$ 0.31	25 %
Basic Weighted Average Shares Outstanding	43,393,642	42,278,938		43,306,075	42,278,938	
Diluted Net Income per Share	$ 0.14	$ 0.13	8 %	$ 0.39	$ 0.31	26 %
Diluted Weighted Average Shares Outstanding	43,407,175	42,278,938		43,503,330	42,278,938	

Three Months Ended September 30, 2010 and 2009

Revenue

For the three months ended September 30, 2010, our revenues increased by $3.2 million, or 20%, to $18.7 million from the $15.5 million we generated in the corresponding period of 2009.

Set forth below are our revenues by product category in millions USD for each of the three months ended September 30, 2009 and 2010.

Product Category	Three Months Ended September 30		Net Change	% Change
	2010	2009		
CNS Cerebral & Cardio Vascular	$ 5.9	$ 5.6	$ 0.3	5%
Anti-Viro/ Infection & Respiratory	$ 6.0	$ 6.1	-$ 0.1	-2%
Digestive Diseases	$ 2.4	$ 1.6	$ 0.8	51%
Other	$ 4.5	$ 2.3	$ 2.2	100%

On a year-over-year basis, we continued to experience healthy revenue growth during the quarter ended September 30, 2010. We continued to achieve strong performance in the “Digestive Diseases” category with continued strong sales of Omeprazole, the generic gastroesophageal reflux disease (GERD drug we launched in the fourth quarter of 2009. Sales of Omeprazole during the quarter ended September 30, 2010 was approximately $1.04 million. The strong growth in our “Other” category came from higher sales of Granistron and of Vitamin B6, which is one of the two products we produce that is on the National EDL. We continue to see rising demand in EDL-listed products and also limited pressure on pricing. We are optimistic on our ability to capture new markets and continue to carefully manage our product mix. The revenues of our CNS Cerebral and Cardio Vascular category increased by 5% during the quarter ended September 30, 2010 compared to the same quarter last year with strong performances coming from our Ozagrel and Gastrodin Injection products. Revenues derived from our products in our “Anti-Viro/Infection & Respiratory” category decreased by 2%, but still remained at a relatively high level.

Cost of Revenue

For the three months ended September 30, 2010, our cost of revenue was $11.1 million, or 59% of total revenue, compared to $9.0 million, or 58% of total revenue during the comparable period of 2009. The increase in cost of revenue during the third quarter of 2010 was primarily due to higher volume of products sold for the 2010 period.

Gross Profit

Gross profit for the three months ended September 30, 2010 was $7.6 million, which was approximately 17% higher compared to $6.5 million for the third quarter of 2009. Our gross profit margin for the third quarter of 2010 was 40.8%, compared to 42.2% in the corresponding quarter of 2009. The lower gross profit margin in the third quarter of 2010 was due to a higher volume of lower-margin products sold compared to the same period a year ago and also overall pricing pressure from the Healthcare Reform.

Selling Expenses

Our selling expenses for the three months ended September 30, 2010 were $0.45 million, a decrease of approximately $358,000, or 44%, compared to $0.81 million for the three months ended September 30, 2009. Selling expenses were approximately 2.5% of revenue in the third quarter of 2010 compared to 5.2% during the comparable quarter a year ago. Our selling expenses typically vary between 2.5% to 5% of total revenue.

General Administrative Expenses

Our general and administrative expenses for the three months ended September 30, 2010 was $0.87 million, an increase of $0.35 million, or 68%, compared to $0.52 million for the same period in 2009. The increase in our general and administrative expense was in part due to an increase of share-based compensation expense and the amortization expenses for our drug formulas during the quarter ended September 30, 2010 compared to the same quarter a year ago.

Bad Debt Expense

Due to the peculiarity of the Chinese pharmaceutical market environment, deferred payments to pharmaceutical companies by state-owned hospitals and local medicine distributors are a normal phenomenon. Over 90% of our drugs are sold to state-owned hospitals and local medicine distributors, which creates slow collections of our trade receivables. Since most hospitals in China are backed by the government, management believes the deferred payments from hospitals are secure and will eventually be collected. Historically, we have not written-off any receivables in our 17-year history of doing business with hospitals.

As of September 30, 2010, our bad debt allowance for accounts receivable was $2.98 million compared to $2.83 million as of June 30, 2010. The increase of $107,186 in our bad debt allowance during the third quarter represented a corresponding increase in our bad debt expense for the quarter.

Income from Operations

Our operating income for the three months ended September 30, 2010 was approximately $6.2 million, compared to $8.1 million for the same period in 2009, which represented a decrease of $1.9 million, or 23%. The decrease in operating income was primarily due to the effect of a one-time adjustment in our bad debt allowance that created a benefit of $2.8 million in the corresponding quarter one 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 $0.43 million during three months ended September 30, 2010 and a derivative loss of $1.67 million in the corresponding period a year ago. (Please see Note 9 to our consolidated financial statements contained in this report.)

Income Tax Expense

Income tax expense for the three months ended September 30, 2010 was $0.67 million, compared with $0.87 million in the same quarter a year ago. The corporate tax rate for our operating subsidiary in China was 11%, which will remain the same through the end of this year. In 2011, the corporate tax rate for our operating subsidiary will increase to 24%. We are currently applying for the “National High-tech Enterprise” status. The management is optimistic that we will get this designation in the coming months, and if we do, our corporate tax rate will be at 15% for three years starting from 2011.

Net Income

Our net income for the three months ended September 30, 2010 increased by $0.42 million, or approximately 8%, to $5.9 million from $5.5 million for the three months ended September 30, 2009. Net income for the three-month period ended September 30, 2009 included the positive effect of a one-time $2.8 million adjustment of our bad debt allowance as discussed above as well as gains and losses in derivatives (for both the 2010 and 2009 periods). Without the effect of this one-time adjustment and change in value of the derivatives, management estimates that the net

income for the third quarter of 2010 would have been $5.49 million and third quarter of 2009 would have been $4.26 million. On this more comparable basis, our net income for the third quarter of 2010 would have been 29% higher than the same period a year ago. The non-GAAP measures of the operating results of the comparable periods in 2010 and 2009, excluding the approximate impact of the one-time bad debt estimate change and derivative gains and losses, are described below and are reconciled to the corresponding GAAP measures in the following table.

China Pharma Holdings, Inc.
Reconciliation of Non-GAAP Adjusted Net Income and Diluted EPS
(Unaudited, $ in thousand except share and per share data)

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2010		2009		2010		2009	
	Net income	EPS	Net income	EPS	Net income	EPS	Net income	EPS
Adjusted net income, excluding approximate after-tax impact of derivative gain(loss) and one-time bad debt estimate change	$5,485	$0.13	$4,263	$0.10	$15,056	$0.35	$12,569	$0.30
Add: Derivate Gain (Loss) (a)	430	0.01	(1,673)	(0.04)	1,795	0.04	(1,963)	(0.05)
Adjusted net income, excluding approximate after-tax impact of derivative gain (loss) (Non-GAAP)	5,915	0.14	2,590	0.06	16,851	0.39	10,606	0.25
Approximate after-tax impact of one-time bad debt estimate change (b)	-	-	2,900	0.07	-	-	2,558	0.06
Net income as reported (GAAP)	$5,915	$0.14	$5,490	$0.13	$16,851	$0.39	$13,164	$0.31

(a) Represents the approximate amount that net income or EPS of the corresponding periods would have decreased by if derivative reclassification had not been made.

(b) Represents the approximate amount that net income or EPS of the corresponding periods would have decreased by if bad debt estimate had been changed prior to the beginning of 2009.

Gross Profit

Gross profit for the nine months ended September 30, 2010 was $20.8 million, which was approximately 13% higher compared to the $18.4 million for the first nine months of 2009. Our gross profit margin for the first nine months of 2010 was 41.3%, compared to 43.7% in the first nine months of 2009. The slightly lower gross profit margin in the first nine months of 2010 was mainly due to a higher volume of lower-margin products sold compared to the same period a year ago.

Selling Expenses

Our selling expenses for the nine months ended September 30, 2010 were approximately $1.65 million, as compared to $2.01 million for the nine months ended September 30, 2009. Selling expenses were approximately 3.3% of revenue in the first nine months of 2010 compared to 4.8% a year ago. Our selling expenses typically vary between 2.5% to 5% of total revenue.

General Administrative Expenses

Our general and administrative expenses for the nine months ended September 30, 2010 was $2.42 million, an increase of $0.86 million, or 55%, compared to $1.56 million for the same period in 2009. The increase in our general and administrative expense was in part due to an increase of share-based compensation expense and amortization expenses for our drug formulas during the first nine months of 2010 compared to the same period a year ago.

Bad Debt Expense

Our bad debt expense for the nine months ended September 30, 2010 was $0.22 million, compared to a bad debt benefit of $2.10 million in the first nine months of 2009.

During 2009, we reviewed and revised our bad debt allowance estimate to align our estimates to be more in line with our experience and also industry collection standards.

Income from Operations

Our operating income for the nine months ended September 30, 2010 was approximately $17.0 million, which is roughly flat compared to $16.9 million for the same period in 2009 The slight increase in operating income was mainly due to the effect of a one-time adjustment in our bad debt allowance which created a benefit of $2.8 million in the third quarter one 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 $1.80 million during nine months ended September 30, 2010 and a derivative loss of $1.96 million in the corresponding period a year ago. (Please see Note 9 to our consolidated financial statements contained in this report.)

Income Tax Expense

Income tax expense for the nine months ended September 30, 2010 was $1.8 million, compared to $1.7 million in the same period a year ago.

Net Income

Our net income for the nine months ended September 30, 2010 was approximately $16.85 million, an increase of approximately $3.69 million, or 28%, from $13.16 million for the nine months ended September 30, 2009. Net income for the nine-month period ended September 30, 2009 included the positive effect of a one-time adjustment of our bad debt allowance. Net income for the nine month periods ended September 30, 2010 and 2009 also included gains and losses of derivatives. Without the effect of this one-time adjustment and the change in value of derivatives, management estimates that the net income for the nine months ended September 30, 2010 and 2009 would have been $15.06 million and $12.57 million, respectively. On this more comparable basis, our net income for the first nine months of 2010 would have been 20% higher than the net income for the corresponding nine months a year ago. Please see the table entitled “Reconciliation of Non-GAAP Adjusted Net Income and Basic and Diluted EPS” contained in the previous Net Income section (for the three-month periods ended September 30, 2010 and 2009) for a reconciliation of these non-GAAP measures.

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operations and short-term bank loans. As of September 30, 2010, our cash and cash equivalents outstanding was $4.56 million, an increase of $0.93 million from $3.63 million as of December 31, 2009. As of September 30, 2010, we had a principal balance of $2.99 million in short-term bank loans.

During the first nine months of 2010, we continued our vigorous collection efforts from our customers and achieved good results. 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.

Based on our current operating plan, management believes that our cash provided by operations plus the proceeds from our existing bank loans will be sufficient to meet our working capital needs and our anticipated capital expenditures, including expenditures for new formula acquisitions, for the next 12 months. However, if events or circumstances occur and we do not meet our operating plan as expected, we may be required to seek additional capital and/or to reduce certain discretionary spending, which could have a material adverse effect on our ability to achieve our business objectives. Notwithstanding the foregoing, we may seek additional financing for expansion purposes, which may include debt and/or equity financing. There can be no assurance that any additional financing will be available on acceptable terms, if at all. Any equity financing may result in dilution to existing stockholders and any debt financing may include restrictive covenants.

	Nine Months Ended September 30	
	2010	2009
Net Cash Provided by Operating Activities	$6,060,079	$6,388,089
Net Cash Used in Investing Activities	(7,147,264)	(10,798,769)
Net Cash Provided by Financing Activities	1,930,673	1,315,307
Effect of Exchange Rate change on Cash	83,191	13,001
Cash & Equivalent Beginning Balance	3,634,753	6,927,149
Cash & Equivalent Ending Balance	$4,561,432	$3,844,777

Operating Activities:

Net cash provided by operating activities was $6.06 million in the nine-month period ended September 30, 2010 compared to $6.39 million in the same period in 2009. We have improved our receivable collection performance compared to a year ago. Cash used by trade receivables was $4.61 million in the first nine months of 2010 compared to $10.85 million in the corresponding period a year ago, even as sales revenue grew by 20%. Cash usage on inventory increased in the nine months ended September 30, 2010 because of an increase in both raw materials and finished goods inventory.

Investing Activities:

Net cash used in investing activities in the nine months ended September 30, 2010 was $7.1 million. The majority of the cash was used for our investments in new drug formulas during the period. This was a decrease of $3.7 million compared to the same period in 2009 of $10.8 million.

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 corresponding period a year ago, we did not conduct any equity -related financing.

Bank loan related financing: During the first nine months of 2010, the net decrease in our outstanding balance of our short-term bank loan caused a net cash outflow of $0.88 million. During the first nine months of 2009, the net increase in our outstanding balance of our short-term bank loan caused a net inflow of $1.3 million.

Net proceeds from all financing activities for the nine-month period ending September 30, 2010 was $1.93 million, and for the corresponding period of 2009, the net proceeds were $1.32 million.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the nine-month periods ended September 30, 2010 or 2009.

Commitments

At September 30, 2010 and 2009, 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 for the year ended December 31, 2009, 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, 2009. There were no new accounting policies and estimates during the nine-month period ended September 30, 2010 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 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, 2010. 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, 2010 as originally filed with the SEC on August 9, 2010, our management, including our chief executive officer and chief financial officer, concluded that, as of September 30, 2010, our disclosure controls and procedures were effective at a reasonable assurance level.

However, for the reasons stated in Note 1 to our consolidated financial statements included in this report, we determined that a restatement was required for our financial statements for the year ended December 31, 2009 and our financial statements for the three and nine months ended September 30, 2010 and 2009 contained in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. As a result of the foregoing, management determined that a material weakness existed with respect to our reporting of complex, non-routine transactions. This weakness was a result of our failure to apply new guidance in ASC Topic 815-40, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock with respect to certain warrants issued in 2008. The proper application of this guidance caused the warrants to be a classified as a derivative liability, which required the restatement of our financial statements as of and for year ended December 31, 2009 and the three and nine months ended September 30, 2010 and 2009.

As result of the material weakness identified with respect to our reporting of complex, non-routine transactions, our chief executive officer and chief financial officer have reevaluated our disclosure controls and procedures and, on March 11, 2011, concluded that our disclosure controls and procedures were not effective as of September 30, 2010. As of the date of this report, we are undertaking steps to augment the technical resources available to us.

A system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the system will meet its objectives. The design of a control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may

deteriorate. In addition, the design of any control system is based in part upon assumptions about the likelihood of future events.

Changes in Internal Control Over Financial Reporting

In our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, our chief executive officer and chief financial officer concluded that under the framework set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, our internal control over financial reporting was effective. However, due to the restatement of our financial statements for the year ended December 31, 2009 and for three and nine months ended September 30, 2010 and 2009 as described above, our chief executive officer and chief financial officer reassessed that conclusion and determined that there existed a material weakness in our internal controls over financial reporting as of December 31, 2009 and 2010. Management has determined that the design and operation of internal control over financial reporting for complex and non-recurring financing transactions that we had in place during 2009 and 2010 were not effective to allow our management, employees and consultants, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely and reasonable basis. That material weakness was the lack of the needed level of technical resources available to us to evaluate the proper accounting for non-routine complex financial instruments and other highly complex accounting issues.

Because we were not aware of this material weakness during the quarter ended September 30, 2010, there was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2010 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 are undertaking steps to augment the technical resources available to us.

PART II OTHER INFORMATION

Item 5. Other Information

On July 1, 2010, Hainan Helpson Medical & Biotechnology Co., Ltd., our wholly-owned subsidiary and operating entity in the People's Republic of China ("Helpson"), renewed the expired employment agreement of Ms. Zhilin Li, our Chairman of the Board and Chief Executive Officer, by entering into an employment agreement (the "Helpson Employment Agreement") on the same terms as those of the old employment. Pursuant to the terms of the Helpson Employment Agreement, Ms. Li agreed to continue to serve as Helpson's chief executive officer for a term of five years at an annual salary of RMB 800,000 (equivalent to $119,403). Helpson may duly adjust Ms. Li's compensation in accordance with her production and operation achievement and her technical ability and working performance. Together with Ms. Li' compensation from our U.S. holding company level, Ms. Li's current total annual compensation is $200,000.

The foregoing description of the Helpson Employment Agreement does not purport to be complete and is qualified in its entirety by reference to the Helpson Employment Agreement, a copy of which is attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

Item 6. Exhibits

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

EXHIBIT INDEX

No. Description

10.1* – Employment Agreement by and between Hainan Helpson Medical & Biotechnology Co., Ltd. and Ms. Zhilin Li, Chief Executive Officer dated July 1, 2010.

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.

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*Incorporated by reference to the Company's Quarterly Report for the quarter ended September 30, 2010, filed with the SEC on November 10, 2010.

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 15, 2011 By: /s/ Zhilin Li
Name: Zhilin Li
Title: President and Chief Executive Officer
(principal executive officer)

Date: March 15, 2011 By: /s/ Frank Waung
Name: Frank Waung
Title: Chief Financial Officer
(principal financial officer and principal accounting officer)