CHINA PHARMA HOLDINGS, INC.
Form 10QSB
August 14, 2006

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 June 30, 2006

[_] 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, 858-776-8880 (USA)
(Registrant's telephone number, including area code)
Copies to:

Charles Law
King and Wood LLP
650 Page Mill Road,
Palo Alto, CA 94304

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]

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: 34,723,056 shares of common stock issued and outstanding as of June 30, 2006.

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

China Pharma Holdings, Inc.

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

CHINA PHARMA HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2006	December 31, 2005
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 195,224	$ 461,220
Trade accounts receivable, less allowance for doubtful accounts of $826,146 and $1,412,353, respectively	9,119,327	5,709,762
Other non-trade receivables, less allowance for doubtful accounts of $79,341 and $111,029, respectively	486,691	385,957
Advances to suppliers	1,978,947	2,123,729
Inventory	6,782,480	5,785,196

Total Current Assets	18,562,669	14,465,864
Non-current Assets:		
Property and equipment, net	2,806,435	2,808,342
Intangible assets, net	76,604	96,406
Deferred tax assets	107,063	130,458
Total Non-current Assets	2,990,102	3,035,206
TOTAL ASSETS	$ 21,552,771	$ 17,501,070
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$ 1,213,611	$ 679,104
Accrued expenses	105,386	15,625
Taxes payable	447,173	565,236
Other accounts payable	217,880	250,317
Advances from customers	68,921	50,755
Short-term notes payable	4,256,158	--
Dividends payable	--	4,209,889
Total Current Liabilities	6,309,129	5,770,926
Research and development commitments	31,225	30,966
Total Liabilities	6,340,354	5,801,892
Shareholders' Equity:		
Common stock, $0.001 par value, 60,000,000 shares authorized, 34,723,056 shares issued and outstanding	34,723	34,723
Additional paid-in capital	7,764,979	7,764,979
Accumulated other comprehensive income	211,558	99,926
Retained earnings	7,201,157	3,799,550
Total Shareholders' Equity	15,212,417	11,699,178
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 21,552,771	$ 17,501,070

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

CHINA PHARMA HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,
	2006	2005	2006

Revenue	$ 3,975,569	$ 492,530	$ 8,709,334
Cost of revenue	2,105,082	324,994	4,631,549
Gross profit	1,870,487	167,536	4,077,785
Operating expenses:			
Selling expenses	82,133	4,490	170,161
General and administrative	436,340	20,078	680,321
Total operating expenses	518,473	24,568	850,482
Income from operations	1,352,014	142,968	3,227,303
Non-operating income (expenses):			
Interest income	87	--	182
Bad debt recovery	627,861	--	626,580
Interest expense	(24,103)	(28,895)	(47,898)
Other income (expense)	120,803	--	120,461
Total non-operating income (expense)	724,648	(28,895)	699,325
Income before taxes	2,076,662	114,073	3,926,628
Income tax expense	(246,200)	(9,521)	(525,022)
Net income	$ 1,830,462	$ 104,552	$ 3,401,606
Comprehensive income - foreign currency translation adjustments	62,557	--	221,558
Comprehensive income	$ 1,893,019	$ 104,552	$ 3,623,164
Basic and diluted earnings per common share	$ 0.05	$ 1.23	$ 0.10
Weighted-average common shares outstanding	34,723,056	85,112	34,723,056

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

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

For the period

	For the six months ended June 30, 2006	from January 12, 2005 (Date of Inception) through June 30, 2005
Cash Flows from Operating Activities:		
Net income	$ 3,401,606	$ 104,552
Depreciation and amortization	193,065	7,289
Loss on disposal of property and equipment	--	19,934
Accretion of discount on notes payable	--	12,870
Deferred tax assets	24,387	--
Changes in assets and liabilities:		
Accounts receivable	(3,348,145)	(472,696)
Other receivables	(97,112)	(453,974)
Advances to suppliers	161,868	807,785
Inventory	(945,068)	(529,801)
Trade accounts payable	526,675	536,973
Accrued expenses	84,810	9,389
Taxes payable	(122,285)	(21,547)
Other accounts payable	--	(213,403)
Advances from customers	17,670	95,902
Short-term notes payable	31,653	--
Net Cash Used in Operating Activities	(70,876)	(96,727)
Cash Flows from Investing Activities:		
Capital expenditures, net of dispositions	(144,790)	(3,565)
Net cash received in purchase of Subsidiary	--	129,073
Proceeds from note receivable	--	11,083
Purchase of intangible assets	(2,477)	--
Net Cash (Used) Provided by Investing Activities	(147,267)	136,591
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	--	1
Net Cash Proceeds from Financing Activities	--	1
Effect of Exchange Rate Changes in Cash	(47,853)	--
Net Change in Cash	(265,996)	39,865
Cash and Cash Equivalents at Beginning of Period	461,220	--
Cash and Cash Equivalents at End of Period	$ 195,224	$ 39,865

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

CHINA PHARMA HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006
(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 footnote 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-K report for the year ended December 31, 2005.

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 six months ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

Organization - Onny Investment Limited ("Onny") was incorporated in the British Virgin Islands on January 12, 2005. Through June 15, 2005, Onny was a development stage enterprise with no activities except for the acquisition of Hainan Helpson Medical & Biotechnology Co., Ltd ("Helpson"), as discussed below. Upon the acquisition of Helpson and its operations, Onny emerged from the development stage. On June 16, 2005, Onny acquired all of the outstanding shares of Helpson.

On October 19, 2005, Onny was reorganized as a wholly-owned subsidiary of the Company. The reorganization was accomplished through the exchange of 29,700 shares of Onny common stock for 20,555,329 shares of the Company's common stock and for the commitment of the Company to issue an additional 4,723,056 shares upon amending its articles of incorporation. The exchange of shares was a 851-for-1 exchange ratio. In addition, the prior Onny preferred shareholders exchanged their 10,000 shares of Onny common stock for 6,944,611 shares of the Company's common stock for a 694-for-1 exchange ratio. Additionally, the prior Onny preferred shareholders converted their preferred stock into Onny common shares. The reorganization of Onny into the Company was recognized as a stock split of the common stock of Onny and the effective issuance by Onny of 2,500,060 shares of common stock to the Company's pre-reorganization shareholders and the assumption of $4,473 of liabilities. The reverse acquisition of the Company was recognized as a non-monetary exchange.

During the period ended March 31, 2006, the Company amended its articles of incorporation to increase its authorized shares from 30,000,000 shares to 60,000,000 shares.

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). The marketing department is in Hainan Province and there are 16 sales offices in China. Helpson's other products 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. There were no dilutive common shares outstanding at June 30, 2006.

NOTE 2 - Acquisition

On May 25, 2005, Onny entered into an agreement with the shareholders of Helpson, a privately held PRC joint venture, in which Onny agreed to acquire and the shareholders of Helpson agreed to sell, all of the outstanding common shares of Helpson in exchange for the assumption of obligations to make cash payments to the Helpson shareholders in the form of common stock dividends from Helpson of $4,154,041, the assumption of $4,646,409 of other liabilities and the issuance of non-interest bearing promissory notes totaling $3,413,265 payable three months after Helpson obtains a business license in the PRC as a wholly foreign owned entity. Helpson obtained such license on June 16, 2005 and the shares of Helpson were transferred to Onny on that date. Since June 16, 2005 was recognized as the date of the acquisition, the promissory notes became due September 16, 2005.

Since Helpson is an operating company and control of Helpson changed upon the closing of the acquisition agreement, Onny is the accounting acquirer and has recognized the acquisition of Helpson as a business combination in accordance with Statements of Financial Accounting Standards No. 141, Business Combinations. On April 25, 2005, Helpson declared a dividend to the selling shareholders of $4,154,041 which equaled Helpson's retained earnings at March 31, 2005 less deferred income tax assets of $86,985 that are not considered part of distributable profits under PRC law. The fair value of the net assets of Helpson was determined by appraisal. The cost of the net assets exceeded the fair value. That excess was allocated as a pro-rata reduction of the amounts that otherwise would have been assigned to the non-current assets acquired.

The following unaudited pro forma information is presented to reflect the operations of the Company and Helpson on a combined basis as if the acquisition of Helpson had been completed as of January 1, 2005. The unaudited pro forma information is only illustrative of the effects of the acquisition and does not necessarily reflect the results of operations that would have resulted had the acquisition actually occurred on that date.

ACQUISITION
TS ELECTRONICS, INC.

	For the Period from January 12, through June 30, 2005
	(unaudited)
Revenue	$ 5,816,888

Gross Profit		2,236,358
Net income		1,750,591
Basic earnings per common share	$	0.05

Pro forma net income for the for the six months ended June 30, 2005 include nonrecurring interest expense of $84,577 resulting from the amortization of the discount on the $3,383,073 promissory notes payable to the former Helpson shareholders, which discount was computed based upon an imputed interest rate of 10% per annum.

NOTE 3 - Inventory

Inventory consisted of the following:

	June 30, 2006	December 31, 2005
Raw materials	$ 4,670,136	$ 4,673,352
Work in process	256,458	819,146
Finished goods	1,855,886	292,698
Total Inventory	$ 6,782,480	$ 5,785,196

NOTE 4 - Income Taxes

The Company accounts for its income taxes in accordance with Statement of Financial Accounting Standards No. 109, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing 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. Helpson received tax benefits as a result of a reduced tax rate from 30% to 15%, as a result of being in the first five years of operations and a reduced tax of 7.5% as a result of operating in a special economic area in the PRC.

NOTE 5 - Short Term Notes Payable

In January 2006, the Company converted its dividend payable into short-term notes bearing interest at a rate of 2.25% per annum. As of June 30, 2006 these notes and accrued interest remain outstanding.

NOTE 6 - Stockholders' Equity

On October 19, 2005, the Company acquired all of the issued and outstanding common stock of Onny; thus, Onny became a wholly owned subsidiary of the Company. The reorganization of Onny into the Company was recognized as a stock split of the common stock of Onny and the effective issuance by Onny of 2,500,060 shares of common stock to the Company's pre-reorganization shareholders. The number of common shares issued and outstanding has been restated in the accompanying condensed consolidated financial statements on a retroactive basis for the effects of the stock split.

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 our consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this document. In addition to historical information, the following discussion and other parts of this document contain certain forward-looking information. Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. When used in this discussion, the words "believes," "anticipates," "expects," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected due to a number of factors beyond our control.

We do not undertake to publicly update or revise any of the forward-looking statements even if experience or future changes show that the indicated results or events will not be realized. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. You are also urged to carefully review and consider our discussions regarding the various factors, which affect our business, included in this section and elsewhere in this report.

Factors that might cause actual results, performance or achievements to differ, from those projected or implied in such forward-looking statements include, among other things, (i) the impact of competitive products; (ii) changes in law and regulations; (iii) adequacy and availability of insurance coverage; (iv) limitations on future financing; (v) increases in the cost of borrowings and unavailability of debt or equity capital; (vi) the effect of adverse publicity regarding our products; (vii) our inability to gain and/or maintain market share; (viii) exposure to and expense of resolving and defending product liability claims and other litigation; (ix) consumer acceptance of our products;

(x) managing and maintaining growth; (xi) customer demands; (xii) market and industry conditions including pricing and demand for products, (xiii) the success of product development and new product introductions into the marketplace; (xiv) the departure of key members of management; (xv) our ability to efficiently market our products; as well as other risks and uncertainties that are described from time to time in our filings with the Securities and Exchange Commission.

Notwithstanding the above, Section 27A of the Securities Act and Section 21E of the Securities Exchange Act expressly state that the safe harbor for forward looking statements does not apply to companies that issue securities that meet the definition of a penny stock, as such, the safe harbor for forward looking statements does not apply to us.

Overview

On June 16, 2005, Onny acquired all of the outstanding common shares of Helpson, a privately held Chinese joint venture, in exchange for the assumption of obligations to make cash payments to the Helpson shareholders in the form of common stock dividends from Helpson of $4,154,041, the assumption of $4,646,409 of other liabilities and the issuance of non-interest bearing promissory notes totaling $3,413,265 payable three months after Helpson obtains a business

license in the PRC as a wholly foreign owned entity. The acquisition of Helpson was recognized as a business combination.

On October 19, 2005, Onny issued 10,000 preferred shares in exchange for $4,313,000 in cash, net of offering costs and estimated registration costs, and on that same date, those preferred shares were converted into 10,000 Onny common shares. Also on October 19, 2005, Onny was reorganized as a wholly-owned subsidiary of the Company. The reorganization was accomplished by the original Onny common shareholder exchanging her 29,700 Onny common shares for 20,555,329 common shares of China Pharma Holdings, Inc. and for the commitment by China Pharma Holdings, Inc. to issue the original Onny common shareholder 4,723,056 common shares following an amendment of the China Pharma Holdings, Inc. articles of incorporation increasing the number of common shares authorized to 60,000,000 shares. In addition, the prior Onny preferred shareholders exchanged their 10,000 Onny common shares for 6,944,611 common shares of China Pharma Holdings, Inc.

We launched an anti-flu product named PuSenOK, which is the only anti flu medicine in the market mixed with pseudo ephedrine hydrochloride, that has a non-drowsy formula and a runny nose suppressant. 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 will launch several additional biological medicines, including the brain peptide injection, injected hepatocyte growth-promoting factors, as well as new genetic medicines, rh-CNTF and rh-aFGF, which will give us a new growth following that of Neurotrophicpeptide.

Our products have been sold in more than 20 provinces, sovereignties, and autonomous regions. We have 16 sales offices and approximately 250 proxy agents in the whole country. The main channels we use to deliver our products were as follows: (1) Distribution system (Proxy Agency); (2) Direct sale system to hospitals; (3) Direct representation in clinic hospitals through medical representatives; and (4) Distribution of products to local medical companies through logistics companies.

Our recent business activities include the following:
Year 2005: Helpson launched a new anti-flu medicine: PusenOK.
Year 2003: Helpson gained GMP authentication.
Year 2003: Helpson named "the best enterprise for storing SARS medicine" by Hainan Food and Drug Administration.
Year 2000: Helpson awarded as one of 50 best enterprises in Hainan by Hainan Economic and Trade Bureau and Hainan Statistical Bureau.

Buflomedil Hydrochloride (Raw material; injection; & troche)

- Received the best technology commercialization award in Hainan in 2004 by Hainan Scientific and Technological Result Examination Committee.
- Received 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.

- Designated as the key technology project in Hainan in 2003 by Haikou Municipality.

Operations Analysis For the six months ended June 30, 2006

The following table presents the operation of the Company for the six months ended June 30, 2006:

-		For the six months ended June 30,2006
Revenues	$	8,709,334
Cost of revenue		4,631,549
Total Operating expenses		850,482
Income from operations		3,227,303
Interest expense		(47,898)
Net income		3,401,606
Basic and diluted earnings per common share		0.10

Revenues

Revenues were $8,709,334 for the six months ended June 30, 2006. During this period, the revenues have been growing, the reasons of which mainly are as follows:

Firstly, the new products have quickly entered the market this year. The above new products primarily include Gastrodin injection and Naproxen Sodium and Pesudophedrine Hydrochloride (or Pusen OK). Secondly, the distribution network has spread over the majority of provinces in China. Finally, increased output of products ensured a significant improvement in sales since the manufacturing capacity in Company has expanded.

Cost of Revenue

The cost of revenue was $4,631,549, which was 53.2% of the revenue.

Two new products we are introducing into the market are expected to have a higher profit margin. Accordingly, the cost of revenue to total revenue ratio is expected to decrease upon an increase in the sales volume. Also, in 2006 there is an expectation that costs will be reduced due to increased economies of

scale, implementation of improved cost controls and improved manufacturing processes.

Operating expenses

The total operating expenses for the six months ended June 30, 2006 were $850,482, which is 26.35% of income from operations.

The selling expenses include the salaries and benefits of the sales staff and related transportation expenses. Considering the revenue realized, the selling expenses were lower than the industry average level. The main reason is that four major customers of the Company are hospitals and most of products of the Company are distributed to hospitals through agents.

The general and administrative expenses include R&D, salaries and benefits of the administrative staff. Compared with the R&D expenditure in 2005, the amount of R&D expenditure for new products decreased because most of the researchers were employed from existing personnel. Another reason for the decrease in operating expenses was the reduction in the allowance of bad debt as the collection of old trade receivables, and the amortization expenses of intangible assets. Income from operations was $3,227,303, which was 37.06% of the total revenues.

Interest Expenses

Interest expense for six months ended June 30, 2006 was $47,898. Pursuant to the shareholders' agreement, the dividend payable to shareholders would be converted into loans if the dividends were not paid off by 31/12/2005. The interest on such loans should be recorded as interest expense at the agreed upon interest rate.

The company plans to apply for new bank loans in August of this year, which would result in increased interest expenses in future periods.

Taxation

As a foreign invested enterprise as defined under Chinese laws, Helpson is entitled to preferential tax treatment, i.e., starting from the year of making profits, Helpson shall be exempt from income tax in the first and second years and allowed a fifty percent reduction in the third to fifth years. Since Hainan Province is a special economic area, its enterprise income tax is 15%. Therefore, from the third to the fifth year after Helpson begins to make profit, it shall pay income tax at the rate of half of 15%, or 7.5%. As a new foreign invested enterprise, the application for the above preferential tax treatment is expected to be approved later this year. Since the application is still being processed, the Company will pay the income taxes with the expectation that they will be refunded by the Chinese government upon the approval of the application.

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Liquidity and capital resource for the six months ended June 30, 2006.

The following table presents selected items from the balance sheets as of June 30, 2006, and December 31, 2005

Items		As of June 30, 2006		As of December 31, 2005
		Year 2006		Year 2005
cash and cash equivalents	$	195,224	$	461,220
trade accounts receivable		9,119,327		5,709,762
inventory		6,782,480		5,785,196
Total current assets		18,562,669		14,465,864
property and equipment, net		2,806,435		2,808,342
TOTAL ASSETS		21,552,771		17,501,070
Total current liabilities		6,309,129		5,770,926
TOTAL LIABILITIES		6,340,354		5,801,892
TOTAL SHAREHOLDER'S EQUITY		15,212,417		11,699,178

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Analysis of Financial Position

At June 30, 2006, cash and cash equivalents of $195, 224, were about 1.05% of the total current assets. It decreased by 57.67% compared with cash at December

31, 2005. The net value of property and equipment was $2,806,435, 13.03% of the total assets.

The trade account receivables were $9,119,327 and the valuation of inventory was $6,782,480 at June 30, 2006. Trade account receivables and inventory amounted to 42.32% and 31.47% of the total assets respectively. The dramatic increase of sales revenues of Helpson resulted in the increase of trade receivables. A long collection period of account receivables also caused the balance to increase by 59.72% compared to December 31, 2005. Considering the slow collectibility, the Company plans to pay more attention to collecting trade account receivables, to adopt cash-sales orientation when selling products to new customers or small-sized customers.

An increase of 17.24% in inventory was primarily due to the special geographical location of Hainan province, where there is a long distance from other provinces and would lead to difficulty in transportation of inventory. Hence, the Company needs to prepare more materials in order to satisfy the production demand. In addition, some materials need to be produced by specific manufacturers, so the company has to retain parts of materials for meeting the demands of production. Moreover, a dramatically increasing sale would result in a rising trend of inventory stored.

The total liabilities of $6,340,354 against total assets of $21,552,771 arrive at a liability ratio of 29.42%. Likewise, a quick ratio could be obtained that, if the inventory of $6,782,480 is excluded from total current assets of $18,562,669, against current liabilities of $6,309,129, then the quick ratio would be 1.87. This indicates that the Company has capability to be liquid as necessary.

An increase to $15,212,417 ended up to June 30, 2006 in the shareholder's equity compared to $11,699,178 at December 31, 2005 is primarily due to the increase of accumulated other comprehensive income, and the increase of the retained earnings resulting from the growth of sales revenue.

Operating activities

As of June 30, 2006, cash and cash equivalents were up to $195,224, which were decreased by 57.67% compared with the beginning balance of $461,220. Cash flow used in operating activities during the first half of 2006 was $70,876. The main reason for the amount in cash utilized in operating activities was an increase of trade account receivables with the amount of $3,348,145, and an increase of inventory in the amount of $945,068 during the period.

Investing activities

Net cash utilized in investing activities was $147,267 during the first half of 2006. The employment of net cash was fundamentally due to the capital expenditure amounting to 144,790 for fixed assets as net of disposition.

In conclusion, net cash utilized for the first six month of year 2006 was entirely $265,996. It was primarily on investing activity with the amount of $ 147,267, and on operating activity with the net cash flow of $70,876.

Item 3 - Control 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 and Reports on Form 8-K

(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.

(b) Reports on Form 8-K

On May 4, 2006, we filed a report on form 8-K, disclosing that 1) we increased the size of the Board of Directors from one to three and elected Zhilin Li and Xinhua Wu as directors to serve until the next annual meeting of shareholders and until their successors are elected and qualified; 2) we filed a Certificate of Amendment to our Articles of Incorporation with the State of Delaware. The amendments included: increasing the authorized common stock from 30,000,000 shares to 60,000,000 shares; changing the name to China Pharma Holdings, Inc.; and increasing the number of directors from one to not less than three nor more than nine, with the exact number to be fixed from time to time by vote of the majority of the entire Board of Directors.

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: August 14, 2006 By: /s/ Zhilin Li

Zhilin Li
Chief Executive Officer,
President and Director

Dated: August 14, 2006 By: /s/ Xinhua Wu

Xinhua Wu
Chief Financial Officer,
and Director

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