CHINA PHARMA HOLDINGS, INC.
Form 10-Q
August 11, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

For the transition period from _____ to _____

Commission File Number 001-34471

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 43,579,557 shares of Common Stock, $.001 par value, were outstanding as of August 8, 2016.

CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

The results of operations for the six-month period ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

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

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$6,285,239	$6,248,760
Restricted cash	1,253,579	-
Banker's acceptances	7,526	-
Trade accounts receivable, less allowance for doubtful accounts of $29,385,012 and $28,644,398, respectively	4,347,828	5,882,509
Other receivables, less allowance for doubtful accounts of $78,313 and $74,400, respectively	171,881	290,739
Advances to suppliers	2,765,105	2,533,354
Inventory, less allowance for obsolescence of $6,628,787 and $8,417,095, respectively	8,938,484	9,662,750
Prepaid expenses	47,335	339,140
Total Current Assets	23,816,977	24,957,252
Advances for purchases of intangible assets	40,255,706	42,030,649
Property and equipment, net of accumulated depreciation of $10,774,784 and $9,422,912, respectively	27,214,609	29,393,257
Intangible assets, net of accumulated amortization of $4,391,609 and $4,360,004, respectively	689,961	841,075
TOTAL ASSETS	$91,977,253	$97,222,233
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$2,863,197	$2,824,521
Accrued expenses	39,933	143,409
Other payables	1,745,875	1,710,283
Advances from customers	822,345	595,681
Other payables - related parties	1,354,567	1,354,567
Current portion of construction loan facility	1,505,265	1,540,666
Short-term notes payable	4,515,794	4,621,998
Banker's acceptance notes payable	1,253,579	-
Total Current Liabilities	14,100,555	12,791,125
Non-current Liabilities:		
Construction loan facility	10,235,799	10,784,661
Deferred revenue	346,065	708,408
Long-term deferred tax liability	333,592	296,890
Total Liabilities	25,016,011	24,581,084
Stockholders' Equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-

Common stock, $0.001 par value; 95,000,000 shares authorized;		
43,579,557 shares and 43,579,557 shares outstanding, respectively	43,580	43,580
Additional paid-in capital	23,590,204	23,590,204
Retained earnings	29,933,300	33,939,998
Accumulated other comprehensive income	13,394,158	15,067,367
Total Stockholders' Equity	66,961,242	72,641,149
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$91,977,253	$97,222,233

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	$3,542,230	$5,674,175	$7,182,724	$11,369,105
Cost of revenue	2,868,031	4,511,951	5,939,492	8,946,657
Inventory obsolescence	192,102	1,218,051	120,316	1,419,148
Gross (loss) profit	482,097	(55,827)	1,122,916	1,003,300
Operating expenses:				
Selling expenses	857,694	1,012,463	1,826,201	2,001,416
General and administrative expenses	780,953	459,026	1,099,883	931,455
Research and development expenses	96,661	174,850	190,094	335,678
Bad debt expense (benefit)	494,548	(3,141,116)	1,075,848	3,963,540
Impairment of long term assets	822,539	-	822,539	-
Total operating expenses	3,052,395	(1,494,777)	5,014,565	7,232,089
Subsidy income	348,672	-	348,672	-
Income (loss) from operations	(2,221,626)	1,438,950	(3,542,977)	(6,228,789)
Other income (expense):				
Interest income	33,123	30,222	66,715	57,077
Interest expense	(243,883)	(322,422)	(486,192)	(636,197)
Net other expense	(210,760)	(292,200)	(419,477)	(579,120)
Income (loss) before income taxes	(2,432,386)	1,146,750	(3,962,454)	(6,807,909)
Income tax expense	(21,416)	(19,428)	(44,244)	(38,712)
Net income (loss)	(2,453,802)	1,127,322	(4,006,698)	(6,846,621)
Other comprehensive income (loss) - foreign currency translation adjustment	(2,153,639)	259,216	(1,673,209)	745,772
Comprehensive income (loss)	$(4,607,441)	$1,386,538	$(5,679,907)	$(6,100,849)
Income (loss) per share:				
Basic	$(0.06)	$0.03	$(0.09)	$(0.16)
Diluted	$(0.06)	$0.03	$(0.09)	$(0.16)

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

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

	For the Six Months Ended June 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net loss	$(4,006,698)	$(6,846,621)
Depreciation and amortization	1,728,273	1,884,749
Bad debt (benefit) expense	1,075,848	3,963,540
Deferred income taxes	44,244	38,712
Inventory obsolescence reserve	(1,621,255)	231,326
Impairment of long-term assets	822,539	-
Changes in assets and liabilities:		
Trade accounts and other receivables	(534,417)	(2,437,248)
Advances to suppliers	(294,753)	(494,834)
Inventory	2,767,597	2,508,519
Trade accounts payable	105,290	1,231,153
Accrued taxes payable	(41,984)	81,600
Other payables and accrued expenses	(22,833)	23,927
Advances from customers	244,323	(1,048,730)
Prepaid expenses	288,705	348,196
Net Cash Provided by Operating Activities	554,879	(515,711)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(66,213)	(264,869)
Net Cash Used in Investing Activities	(66,213)	(264,869)
Cash Flows from Financing Activities:		
Payments of construction term loan	(306,028)	-
Net Cash Provided by Financing Activity	(306,028)	-
Effect of Exchange Rate Changes on Cash	(146,159)	9,790
Net (Decrease) Increase in Cash and Cash Equivalents	36,479	(770,790)
Cash and Cash Equivalents at Beginning of Period	6,248,760	5,319,990
Cash and Cash Equivalents at End of Period	$6,285,239	$4,549,200
Supplemental Cash Flow Information:		
Cash paid for interest	$486,192	$629,424
Supplemental Noncash Investing and Financing Activities:		
Accounts payable for purchases of property and equipment	-	108,224
Accounts receivable collected with banker's acceptances	643,457	952,353
Inventory purchased with banker's acceptances	635,806	924,000
Restricted cash related to banker's acceptances	1,274,293	-
Advances for intangible assets purchased with banker's acceptances	-	398,937

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

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CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2016 and 2015

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations – China Pharma Holdings, Inc., a Nevada corporation, owns 100% of Onny Investment Limited (Onny), a British Virgin Islands corporation, which owns 100% of Hainan Helpson Medical & Biotechnology Co., Ltd (Helpson), a company organized under the laws of the People's Republic of China (the PRC). China Pharma Holdings, Inc. and its subsidiaries are referred to herein as the Company.

On December 31, 2012, China Pharma Holdings, Inc. consummated a reincorporation merger for the purpose of changing its state of incorporation from Delaware to Nevada pursuant to the terms and conditions of an Agreement and Plan of Merger dated December 27, 2012. The reincorporation merger was approved by stockholders holding the majority of the Company's outstanding shares of common stock on December 21, 2012.

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

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

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

Consolidation and Basis of Presentation – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are expressed in United States dollars. The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation.

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

Accounting Estimates - The methodology used to prepare for the Company's financial statements is in conformity with the accounting principles generally accepted in the United States of America, which requires the management of the Company ("Management") to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Therefore, actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include interest bearing and non-interest bearing bank deposits, money market accounts, and short-term banker's acceptances purchased with maturities of three months or less.

Restricted Cash – Restricted cash includes cash that has been deposited with a bank to satisfy obligations outstanding under banker's acceptance notes issued by the Company as discussed in Note 8.

Trade Accounts Receivable and Allowance for Doubtful Accounts – Trade accounts receivables are carried at the original invoiced amounts less an allowance for doubtful accounts. The allowances for doubtful accounts are calculated based on a detailed review of certain individual customer accounts and an estimation of the overall economic conditions affecting the Company's customer base. The Company reviews a customer's credit history before extending credit to the customer. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additions to the allowance would be required. A provision is made against accounts receivable to the extent they are considered unlikely to be collected. Charges to bad debt expense totaled $1,075,848 and $3,963,540 for the six months ended June 30, 2016 and 2015, respectively.

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2016 and 2015

Trade accounts receivable that have been fully allowed for and determined to be uncollectible are charged against the allowance in the period the determination is made. It is common practice in the pharmaceutical industry in the PRC for receivables to extend beyond one year. Customer balances outstanding for more than one year are allowed for at a greater rate when calculating the allowance for doubtful accounts. As of June 30, 2016, the Company had trade accounts receivable amounting to $30 million from sales that occurred more than one year from that date

Advances to Suppliers and Advances from Customers – Common practice in the pharmaceutical industry in the PRC is to make advances to suppliers for materials and to receive advances from customers for finished products. Advances to suppliers are applied to trade accounts payable when the materials are received. Advances received from customers are applied against trade accounts receivable when finished products are sold. The Company reviews a supplier's credit history and background information before advancing a payment. If the financial condition of its suppliers were to deteriorate, resulting in an impairment of their ability to deliver goods or provide services, the Company would recognize bad debt expense in the period they are considered unlikely to be collected.

Inventory – Inventory is stated at the lower of cost or net realizable value, computed on an average cost basis. We charge inventory obsolescence expense for inventory allowance to write down our inventory to the lower of cost or estimated market value or to completely write off obsolete or excess inventory. Charges to inventory obsolescence expense totaled $120,316 and $1,419,148 for the six months ended June 30, 2016 and 2015, respectively. The Company recognized an inventory obsolescence reserve of $6,628,787 and $8,417,095 as of June 30, 2016 and December 31, 2015, respectively. The relatively large amount in inventory obsolescence reserve as of June 30, 2016 is caused by the increased aging inventory due to the decrease in sales during the six months ended June 30, 2016.

Valuation of Long-Lived Assets – The carrying values of long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying values may not be recoverable. When such an event occurs, the Company projects the undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of an asset will not be recovered, it is reduced by the estimated excess of the carrying value over the projected discounted cash flows estimated to be generated by the asset. During the six months ended June 30, 2016 the Company recognized an impairment related to Advances for purchases of intangible assets in the amount of $822,539 as more fully discussed in Note 5. There was no impairment adjustment required for the six months ended June 30, 2015.

Property and Equipment – Property and equipment are stated at cost. Maintenance and repairs are charged to expenses as incurred and major improvements are capitalized. Gains or losses on sale, trade-in or retirement are included in operations during the period of disposition.

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

Cost of Revenues – Cost of revenues includes wages, materials, depreciation, handling charges, and other expenses associated with the manufacture and delivery of products.

Research and Development – Research and development expenditures are recorded as expenses in the period in which they occur. Research and development expenses were $190,094 and $355,678 for the six months ended June 30, 2016 and 2015, respectively.

Basic and Diluted Earnings (Loss) per Common Share - Basic earnings (loss) per common share is computed by dividing net earnings (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated to give effect to potentially issuable dilutive common shares. There were no potential dilutive common shares outstanding during the three and six months ended June 30, 2016 and 2015, respectively.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	$(2,453,802)	$1,127,322	$(4,006,698)	$(6,846,621)
Basic weighted-average common shares outstanding	43,579,557	43,579,557	43,579,557	43,579,557
Effect of dilutive securities:				
Warrants	-	-	-	-
Options	-	-	-	-
Diluted weighted-average common shares outstanding	43,579,557	43,579,557	43,579,557	43,579,557
Basic loss per share	$(0.06)	$0.03	$(0.09)	$(0.16)
Diluted loss per share	$(0.06)	$0.03	$(0.09)	$(0.16)

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2016 and 2015

Credit Risk – The carrying amount of accounts receivable included in the balance sheet represents the Company's exposure to credit risk in relation to its financial assets. No other financial asset carries a significant exposure to credit risk. The Company performs ongoing credit evaluations of each customer's financial condition. The Company maintains allowances for doubtful accounts and such allowances in the aggregate have not exceeded Management's estimates.

The Company has its cash in bank deposits primarily at state owned banks located in the PRC. Historically, deposits in PRC banks have been secured due to the state policy of protecting depositors' interests. The PRC promulgated a new Bankruptcy Law in August 2006, effective June 1, 2007, which contains provisions for the implementation of measures for the bankruptcy of PRC banks. In the event that bankruptcy laws are enacted for banks in the PRC, the Company's deposits may be at a higher risk of loss.

Interest Rate Risk – The Company is exposed to the risk arising from changing interest rates, which may affect the ability of repayment of existing debts and viability of securing future debt instruments within the PRC.

Recent Accounting Pronouncements

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

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

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

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

NOTE 2 – INVENTORY

Inventory consisted of the following:

	June 30, 2016	December 31, 2015
Raw materials	$12,184,634	$14,699,736
Work in process	256,743	-
Finished goods	3,125,894	3,380,109
	15,567,271	18,079,845
Obsolescence reserve	(6,628,787)	(8,417,095)
Total Inventory	$8,938,484	$9,662,750

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2016 and 2015

	June 30, 2016	December 31, 2015
Permit of land use	$423,984	$433,956
Building	10,314,651	10,557,234
Plant, machinery and equipment	26,737,662	27,325,440
Motor vehicle	260,386	242,860
Office equipment	252,710	256,679
Total	37,989,393	38,816,169
Less: accumulated depreciation	(10,774,784)	(9,422,912)
Property and Equipment, net	$27,214,609	$29,393,257

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Life - years
Permit of land use	40 - 70
Building	20 - 49
Plant, machinery and equipment	5 - 10
Motor vehicle	5 - 10
Office equipment	3-5

Depreciation relating to office equipment was included in general and administrative expenses, while all other depreciation was included in cost of revenue. For the three months ended June 30, 2016 and 2015, depreciation expense was $921,983 and $857,752, respectively. For the six months ended June 30, 2016 and 2015, depreciation expense was $1,594,307 and $1,712,237, respectively.

NOTE 4 - INTANGIBLE ASSETS

Intangible assets represent the cost of medical formulas approved for production by China Food and Drug Administration ("CFDA"). The Company did not obtain CFDA production approval for any medical formula during the six months ended June 30, 2016 and 2015 and no costs were reclassified from advances to intangible assets during the six months ended June 30, 2016 and 2015, respectively.

Approved medical formulas are amortized from the date CFDA approval is obtained over their individually identifiable estimated useful life, which range from ten to thirteen years. It is at least reasonably possible that a change in the estimated useful lives of the medical formulas could occur in the near term due to changes in the demand for the drugs and medicines produced from these medical formulas. Amortization expense relating to intangible assets was $67,025 and $75,785, respectively for the three months ended June 30, 2016 and 2015 and $133,966 and $172,511 for the six months ended June 30, 2016 and 2015, respectively, and was included in the general and administrative expenses. Medical formulas typically do not have a residual value at the end of their amortization period.

The Company evaluates each approved medical formula for impairment at the date of CFDA approval, when indications of impairment are present and at the date of each financial statement. The Company's evaluation is based

on an estimated undiscounted net cash flow model, considering currently available market data for the related drug and the Company's estimated market share. If the carrying value of the medical formula exceeds the estimated future net cash flows, an impairment loss is recognized for the excess of the carrying value over the fair value of the medical formula, which is determined by the estimated discounted future net cash flows. No impairment loss was recognized during the six months ended June 30, 2016 and 2015.

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

	June 30, 2016	December 31, 2015
Gross carrying amount	$5,081,570	$5,201,079
Accumulated amortization	(4,391,609)	(4,360,004)
Net carrying amount	$689,961	$841,075

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2016 and 2015

NOTE 5 – ADVANCES FOR PURCHASES OF INTANGIBLE ASSETS

In order to expand the number of medicines the Company manufactured and marketed, it has entered into contracts with independent laboratories and others for the purchase of medical formulas. Although CFDA approval had not been obtained for these medical formulas at the dates of the respective contracts, the objective of the contracts is for the Company to purchase CFDA-approved medical formulas once the CFDA approval process is completed. The Company received the titles to two patents that relate to medical formulas currently in the CFDA approval process for the year end December 31, 2013. These patents have not expired.

Prior to entering into contracts with the Company, laboratories typically are required to complete all research and development to determine the content of the medical formula and the method to produce the generic medicine. The application to the CFDA for production approval must be made by the production facility that will produce the related product. As a result, a contract typically provides that the Company buys the medical formula from the laboratory and the laboratory is required to assist the Company in applying for and obtaining the production approval from the CFDA.

A typical CFDA approval process for the production of a generic medical product involves a number of steps that generally require three to five years to complete. If the medical formula is purchased at the point when the generic medical product receives the CFDA's approval for a clinical study, which is very typical for the Company, the clinical study that follows will usually take from one and a half to three years to complete. After completing the clinical study, the results are submitted to the CFDA and a production approval application is filed with the CFDA. In most cases, it will take between eight to eighteen months to prepare and submit the production approval application and obtain CFDA approval. Upon approving the generic medical product, the CFDA issues a production certificate and the Company can commence the production and sales of the generic medical product. As a result of this process, CFDA approval is expected to be received in approximately two to five years from the date the Company signs the medical formula contracts.

Under the terms of the contracts, the laboratories are required to assist the Company in obtaining production approval for the medical formulas from the CFDA. Management monitors the status of each medical formula on a regular basis in order to assess whether the laboratories are performing adequately under the contracts. If a medical product is not approved by the CFDA, as evidenced by their issuance of a denial letter, or if the laboratory breaches the contract, the laboratory is required under the contract to provide a refund to the Company of the full amount of the payments made to the laboratory for that formula, or the Company can require the application of those payments to another medical formula with the same laboratory, if the laboratory is in existence and solvent. As a result of the refund right, the Company is ultimately purchasing an approved medical product. Accordingly, payments made prior to the issuance of production approval by the CFDA are recorded as advances for purchases of intangible assets. Impairment is recorded when an asset's carrying amount is not recoverable via refund rights or otherwise, which can be caused due to laboratory's insolvency or loss of operating license.

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

As of June 30, 2016, the Company was obligated to pay laboratories and others approximately $4,550,000 upon the completion of various phases of contracts to obtain CFDA production approval of medical formulas.

During the second quarter of 2016, based on the Company's monitoring and assessment process, the Company determined that two advance payments to two independent laboratories were impaired. As a result, the Company recognized an impairment loss for the advance payments made to these laboratories in the amount of $822,539.

NOTE 6 – RELATED PARTY TRANSACTIONS

A member of the Company's board of directors had previously advanced the Company an aggregate amount of $1,354,567 as of June 30, 2016 and December 31, 2015 which are recorded as other payables – related parties on the accompanying consolidated balance sheets. The advances bear interest at a rate of 1.0% per year. Total interest expense for the three months ended June 30, 2016 and 2015 was $3,386 and $3,386. Total interest expense for the six months ended June 30, 2016 and 2015 was $6,773 and $6,776, respectively.

NOTE 7 – NOTES PAYABLE

Line of Credit

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

CHINA PHARM HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The outstanding balance due under the revolving line of credit was RMB 30,000,000 as of June 30, 2016 and December 31, 2015 ($4,515,794 as of June 30, 2016 and $4,621,998 as of December 31, 2015). The Company has no additional amounts available to it under this line of credit. This amount has been classified as short-term notes payable in the accompanying condensed consolidated balance sheets as of June 30, 2016.

Fair Value of Notes Payable – Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the carrying amounts of notes payable outstanding as of June 30, 2016 and December 31, 2015 approximated their fair value because of the immediate or short-term maturity of these f