Discover Financial Services
Form 10-Q
April 29, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2014
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 001-33378
DISCOVER FINANCIAL SERVICES
(Exact name of registrant as specified in its charter)

Delaware	36-2517428
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2500 Lake Cook Road, Riverwoods, Illinois 60015	(224) 405-0900
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

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

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

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

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

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

As of April 25, 2014, there were 466,273,816 shares of the registrant's Common Stock, par value $0.01 per share, outstanding.

DISCOVER FINANCIAL SERVICES
Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014
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Except as otherwise indicated or unless the context otherwise requires, “Discover Financial Services,” “Discover,” “DFS,” “we,” “us,” “our,” and “the Company” refer to Discover Financial Services and its subsidiaries.
We own or have rights to use the trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: Discover®, PULSE®, Cashback Bonus®, Discover Cashback Checking℠, Discover® More® Card, Discover it®, Discover® Motiva℠ Card, Discover® Open Road® Card, Discover® Network and Diners Club International®. All other trademarks, trade names and service marks included in this quarterly report on Form 10-Q are the property of their respective owners.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Financial Condition

	March 31, 2014 (unaudited)	December 31, 2013
	(dollars in millions, except share amounts)	
Assets		
Cash and cash equivalents	$8,731	$ 6,554
Restricted cash	1,163	182
Investment securities:		
Available-for-sale (amortized cost of $3,868 and $4,900 at March 31, 2014 and December 31, 2013, respectively)	3,902	4,931
Held-to-maturity (fair value of $62 and $58 at March 31, 2014 and December 31, 2013, respectively)	62	60
Total investment securities	3,964	4,991
Loan receivables:		
Mortgage loans held for sale, measured at fair value	133	148
Loan portfolio:		
Credit card	50,879	53,150
Other	8,794	8,295
Purchased credit-impaired loans	4,046	4,178
Total loan portfolio	63,719	65,623
Total loan receivables	63,852	65,771
Allowance for loan losses	(1,591)	(1,648)
Net loan receivables	62,261	64,123
Premises and equipment, net	668	654
Goodwill	284	284
Intangible assets, net	182	185
Other assets	2,331	2,367
Total assets	$79,584	$ 79,340
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing deposit accounts	$44,813	$ 44,766
Non-interest bearing deposit accounts	171	193
Total deposits	44,984	44,959
Short-term borrowings	124	140
Long-term borrowings	20,182	20,474
Accrued expenses and other liabilities	3,273	2,958
Total liabilities	68,563	68,531
Commitments, contingencies and guarantees (Notes 8, 11, and 12)		
Stockholders' Equity:		
Common stock, par value $0.01 per share; 2,000,000,000 shares authorized; 558,034,622 and 555,349,629 shares issued at March 31, 2014 and December 31, 2013, respectively	5	5
Preferred stock, par value $0.01 per share; 200,000,000 shares authorized; 575,000 shares issued or outstanding and aggregate liquidation preference of $575 at March 31, 2014 and December 31, 2013	560	560

Additional paid-in capital	3,739	3,687
Retained earnings	10,138	9,611
Accumulated other comprehensive loss	(70)	(68)
Treasury stock, at cost; 89,651,099 and 83,105,578 shares at March 31, 2014 and December 31, 2013, respectively	(3,351)	(2,986)
Total stockholders' equity	11,021	10,809
Total liabilities and stockholders' equity	$79,584	$ 79,340

The table below presents the carrying amounts of certain assets and liabilities of Discover Financial Services' consolidated variable interest entities (VIEs) which are included in the condensed consolidated statements of financial condition above. The assets in the table below include those assets that can only be used to settle obligations of the consolidated VIEs. The liabilities in the table below include third party liabilities of consolidated VIEs only, and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts for which creditors have recourse to the general credit of Discover Financial Services.

	March 31, 2014 (unaudited)	December 31, 2013
	(dollars in millions)	
Assets		
Restricted cash	$1,160	$ 179
Credit card loan receivables	$29,157	$ 31,112
Purchased credit-impaired loans	$2,177	$ 2,248
Allowance for loan losses allocated to securitized loan receivables	$(807)	$ (861)
Other assets	$37	$ 34
Liabilities		
Long-term borrowings	$16,295	$ 16,986
Accrued interest payable	$8	$ 9

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES

Condensed Consolidated Statements of Income

	For the Three Months Ended March 31,	
	2014	2013
	(unaudited)	
	(dollars in millions, except per share amounts)	
Interest income:		
Credit card loans	$1,537	$1,451
Other loans	275	234
Investment securities	16	20
Other interest income	5	3
Total interest income	1,833	1,708
Interest expense:		
Deposits	153	186
Short-term borrowings	1	1
Long-term borrowings	116	111
Total interest expense	270	298

al, traditional Chinese medicinal film, prepared Chinese herbal medicine, antibiotics, biological products, biological medicine, radioactive medicine, medical appliances, sanitation materials, pharmaceutical machinery, medical packaging and trading. Competition in the pharmaceutical industry is reduced by barriers to entry. A company wishing to enter into the industry must comply with the standards and regulations set forth by the government. In the PRC, the State Food and Drug Administration of China (the "SFDA") is the authority that monitors and supervises the administration of the pharmaceutical industry including pharmaceutical products, medical appliances, and equipment. Pharmaceutical manufacturing enterprises must obtain a Pharmaceutical Manufacturing Enterprise Permit issued by the relevant pharmaceutical administrative authorities and relevant health departments at the provincial level where the enterprise is located. Furthermore, all pharmaceutical products produced in the PRC, with the exception of Chinese herbal medicines in soluble form, must bear a registered number approved by the appropriate governmental authorities in the PRC. Lastly, in accordance with the World Health Organization, the PRC now requires compliance with GMP standards in pharmaceutical production in order to minimize the risks involved in any pharmaceutical production that cannot be eliminated through testing final products. As the regulatory approval process becomes more stringent, it also increases the barriers to entering the market. Due to the variety of consumer demands within the pharmaceutical market, pharmaceutical companies have relatively dispersed product lines. We have formulated the following development strategies: (1) to be market-oriented, to take advantage of our R&D capacities and to take technology and products as our 36 strategic focus; (2) to launch seven to ten new medicines and one brand medicine in the next three years; (3) to provide more effective methods to treat patients by developing innovative medicines; (4) to enlarge market shares by establishing new sales channels and expanding current sales channels; (5) to launch leading generic drugs and innovative drugs with an aggregate sales of $ 1 billion in the world. Description of Property Helpson owns a factory with a floor area of 663.94 square meters located at the East Wing, 6/F, 5 Jianshe Road, Jinpan Industrial Development Zone, Haikou. Helpson also owns the land use rights to another 31,050 square meters located at plot C09-2, Hainan Bonded Zone, Haikou. Helpson built a factory with a floor area of approximately 7,300 square meters on this parcel. In addition, Helpson entered into a lease agreement with Hainan Zhongfu Going-abroad Personnel Service Center ("Zhongfu"), under which Helpson rented the offices located at 2/F, Jiahai Building owned by Zhongfu as its principal executive offices. The term of the lease is 10 years, from November 21, 2000 to November 20, 2010. Intellectual Property Helpson owns the following 17 registered trademarks: Funalin, Fukexing, Beisha, Shiduotai, Xinuo, Pusenlitai, Pusenouke, Shuchang, Shenkaineng, an AFGF logo, an HPS logo, two HELPSON logos, as well as four other logos. The registration numbers of the 17 registered trademarks are as follows: No.1280259, No.1500459, No.1511770, No.1535416, No.1537828, No.1535420, No.1272792, No.1272759, No.1272760, No.1330294, No.1327731, No.1330295, No.1476339 and No.3993785, No. 4074317, No.4074321 and No. 4315247. In addition, Helpson has applied for registration of five other trademarks used in connection with western medicine, raw material medicine, Chinese herbal medicine and medicine injections. Helpson has obtained five acceptance notices of trademark registration application, and the application numbers are as follows: No.4074320, No.4074314, No.4075447, No.4074322 and No.4074316. Employees As of May 31, 2008, Helpson had 310 employees in total. Government Regulation The following is a summary of the principal governmental laws and regulations that are or may be applicable to pharmaceutical manufacturing companies like Helpson in China. The scope and enforcement of many of the laws and regulations described below are uncertain. We cannot predict the effect of further developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws, or the interpretation or enforcement of laws. 37 Drug Administration Law of the PRC was promulgated by the Standing Committee of National People's Congress on February 28, 2001 and effective as of December 1, 2001, and its implemental rules were promulgated by the State Council on August 4, 2004 and effective as of September 15, 2002. According to Drug Administration Law of the PRC and its implemental rules, a pharmaceutical manufacturer shall obtain Pharmaceutical Manufacturing Permit and the Drug Approval Number for each manufactured medicine from relevant SFDA's provincial branch, which are valid for five years and are renewable upon application before expiration. Administration Regulations for Drug Registration was promulgated by the SFDA on July 10, 2007, and was effective as of October 1, 2007. Administration Regulations for Drug Registration specifies the requirements and procedures of obtaining a Drug Approval Number for new drug, including the requirements for clinical trial of new drugs, procedures of registering imported medicines and report and approval procedures of generic medicines. Good Manufacturing Practices (GMP) for Pharmaceutical Products, as revised in 1998 was promulgated by the SFDA on June 18, 1999 and became effective as of August 1, 1999, and the Authentication Regulations for Drug GMP was promulgated by the SFDA on September 7, 2005 and became effective on October 1, 2005. A pharmaceutical manufacturer must meet the GMP standards and obtain the GMP Certificate with a five-year validity period from SFDA. Before the GMP Certification expires, the pharmaceutical manufacturer must apply again and complete the relevant procedures, which may take about 120 working days, to obtain a new GMP Certificate. On October 24, 2007, the SFDA issued the new guideline for authentication standards of GMP, effective as of January 1, 2008. The new guideline may result in a rise of cost for a pharmaceutical manufacturer to meet the new standards so as to maintain the GMP qualification. If a pharmaceutical manufacturer fails to obtain or maintain GMP Certification and still carries on its production, it will be fined and the Pharmaceutical Manufacturing Permit may be revoked under serious circumstances. Supervision Administration Regulations for Drug Distribution was promulgated by the SFDA on January 31, 2007 and effective as of May 1, 2007. According to Supervision Administration Regulations for Drug Distribution, a pharmaceutical manufacturer can only sell drugs produced by itself, and it shall not sell drugs produced by other manufacturers or produced by itself but for commissioning manufacturing purpose. Regulations for Drug Advertisement Censoring was promulgated by the SFDA and State Administration for Industry and Commerce (the "SAIC") on March 13, 2007 and effective as of May 1, 2007. Standards for Drug Advertisement Censoring and Publication promulgated by the SFDA and the SAIC on March 3, 2007 and effective as of May 1, 2007. According to Regulations for Drug Advertisement Censoring, a pharmaceutical manufacturer must obtain a Drug Advertisement Approval Number from the provincial branch of the SFDA which is valid for a period of one year if the drug advertisement describes the functions or benefits of a drug. However, if an over-the-counter drug advertisement in any media, or a prescription drug advertisement in professional medical magazine, only refers to the name of the drug, including the general name and commercial name, without any other addition promotional information, the advertisement does not need to be censored or approved. 38 Legal Proceedings We have no pending legal proceedings. From time to time, we may be involved in various claims, lawsuits, disputes with third parties, and actions involving allegations of breach of contract or product liability actions incidental to the normal business operations. MANAGEMENT The following table sets forth the names of all of our current directors and executive officers.

Name	Age	Position
Zhilin Li	55	Director, President and Chief Executive Officer
Xinhua Wu	45	Director and Chief Financial Officer
Gene Michael Bennett	60	Independent Director
Yingwen Zhang	63	Independent Director
Baowen Dong	67	Independent Director
Jian Yang	53	Secretary

Ms. Zhilin Li: Ms. Li is the director, President and Chief Executive Officer ("CEO") of the Company. She is a founder of Helpson, and has served as chairman and CEO of Helpson since 1993. Ms. Li was formerly the president of Haikou Bio-engineering Institute, and the vice president of the Sichuan Institute of Biology. She graduated from Sichuan University, where she majored in biology, and later became an instructor. Mr. Xinhua Wu: Mr. Wu is the director and Chief Financial Officer ("CFO") of the Company. He has acted as CFO of Helpson since his employment in 1999. Mr. Wu served as CFO and assistant to the CEO at Hainan Guobang Enterprises Inc., where he was employed from 1992 to 1999. Mr. Wu graduated from the University of Wales with an MBA degree and Jiangxi Financial College with a Bachelor of Science degree in Finance. Mr. Gene Michael Bennett: Mr. Bennett has served as a member of our board of directors as an independent director since February 1, 2008. Mr. Bennett is presently a partner of Beijing Nexis Investment Consulting Corporation which provides management consulting services to Chinese companies. From 2000 to 2004, he acted as partner of ProCFO Company. Prior to that, he served as CFO and a Board Member in Argonaut Computers. Mr. Bennett worked as professor of accounting, taxation and auditing at several universities including California State University, Chapman University, University of Hawaii and Chaminade University. Mr. Bennett is a graduate of Michigan State University and Michigan 39 University. He is also a Doctor of Business Administration (DBA) candidate in Corporate Governance at City University of Hong Kong. Mr. Yingwen Zhang: Mr. Zhang has served as a member of our board of directors as an independent director since February 1, 2008. Mr. Zhang graduated from Department of Chemical Engineering, Tianjin University in 1967. He worked as the CEO of Sinopec Sichuan Vinylon Works from 1983 to 1988 and worked as the director of Sichuan Foreign Trade and Economic Cooperation Bureau (The Bureau of Commerce of Sichuan Province) from December 1988 to April 2000. Since then, he has acted as the Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in Malaysia. Mr.

Zhang currently is the member of the 9th Chinese People's Political Consultative Conference (CPPCC). Mr. Baowen Dong: Mr. Dong has served as a member of our board of directors as an independent director since February 1, 2008. Mr. Dong graduated from Xi'an University of Science and Technology in 1966. He is the professor, researcher, director of the staff room, and the department head in Sichuan University since 1974. He is also an expert member of the Sichuan University Teaching Evaluation Council since August 2001. Ms. Jian Yang: Ms. Yang has been the Secretary of the Company since October 19, 2005. She is a founder and director of Helpson. Ms. Yang was a technician at the Sichuan Institute of Biology in 1990 and vice president of Haikou Biomedicine Engineering Co., Ltd. in 1991. Ms. Yang obtained her MBA degree at the University of Wales, England. Board Composition and Committees Since February 1, 2008, the board of directors has been composed of Zhilin Li, Xinhua Wu, Gene Michael Bennett, Yingwen Zhang and Baowen Dong. All board actions require the approval of a majority of the directors in attendance at a meeting at which a quorum is present. Gene Michael Bennett, Yingwen Zhang and Baowen Dong have served on the Audit Committee since February 1, 2008. Mr. Bennett, the Chairman of the Audit Committee, is a financial expert serving on the Audit Committee. The board of directors has adopted an Audit Committee Charter specifying the authorities and responsibilities of the Audit Committee. We currently have no Nomination Committee, Compensation Committee, or any other committees; therefore, the board will act in the capacity of the absent committees. Disclosure of Commission Position of Indemnification for Securities and Liabilities Our Amended and Restated Certificate of Incorporation, with certain exceptions, eliminate any personal liability of directors or officers to us or our stockholders for monetary damages for the breach of such person's fiduciary duty to the extent permitted by law. We have also adopted Amended and Restated Bylaws which provide for indemnification to the full extent permitted under the law which includes all liability, damages, costs, or expenses arising from or in 40 connection with service for, employment by, or other affiliation with us to the maximum extent and under all circumstances permitted by law. There are presently no material pending legal proceeding to which any of our directors, officers, or employee is a party. There is no pending litigation or legal proceeding involving one of our directors, officers, employees or other agents as to which indemnification is being sought, and we are not aware of any pending or threatened litigation that may result in claims for indemnification by any director, officer, employee or other agent. To the extent provisions of our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws provide for indemnification of directors for liabilities arising under the Securities Act or the Exchange Act, those provisions are, in the opinion of the Securities and Exchange Commission, against public policy and therefore are unenforceable. Code of Business

Conduct and Ethics We have adopted a Code of Business Conduct and Ethics to provide guiding principles to all of our employees. Our Code of Business Conduct and Ethics does not cover every issue that may arise, but it sets out basic principles to guide our employees and provides that all of our employees must conduct themselves accordingly and seek to avoid even the appearance of improper behavior. Any employee which violates our Code of Business Conduct and Ethics will be subject to disciplinary action, up to an including termination of his or her employment. Generally, our Code of Business Conduct and Ethics provides guidelines regarding: o compliance with laws, rules and regulations, o conflicts of interest, o insider trading, o corporate opportunities, o competition and fair dealing, o discrimination and harassment, o health and safety, o record keeping, o confidentiality, o protection and proper use of company assets, o payments to government personnel, o waivers of the Code of Business Conduct and Ethics, o reporting any illegal or unethical behavior, and o compliance procedures. In addition, we have also adopted a Code of Ethics for our Chief Executive Officer and senior financial officers. In addition to our Code of Business Conduct and Ethics, our CEO and senior financial officers are also subject to specific policies regarding: o disclosures made in our filings with the SEC, o deficiencies in internal controls or fraud involving management or other employees who have a significant role in our financial reporting, disclosure or internal controls, 41 o conflicts of interests, and o knowledge of material violations of securities or other laws, rules or regulations to which we are subject. A copy of our Code of Business Conduct and Ethics has been filed with the Securities and Exchange Commission as an exhibit to the registration statement of which this prospectus is a part. DIRECTOR AND EXECUTIVE COMPENSATION No cash compensation was paid to our directors for services as a director during the fiscal year ended December 31, 2007. We have no standard arrangement pursuant to which our internal directors are compensated for their services in their capacity as directors. The board of directors may award special remuneration to any director undertaking any special services on behalf of our company other than services ordinarily required of a director. All authorized out-of-pocket expenses incurred by a director on our behalf will be subject to reimbursement upon our receipt of required supporting document of such expenses. No internal director received and/or accrued any compensation for his services as a director, including committee participation and/or special assignments. Our three independent directors are entitled to the following compensation: Mr. Bennett's compensation consists of $16,000 per year, payable quarterly within 5 days of the start of the quarter, and 5,000 warrants of common stock with an exercise price of $3.32 per share; Mr. Zhang and Mr. Dong are each entitled to RMB40,000 annually, payable quarterly within 5 days of the start of the quarter. The following table provides compensation information for the period indicated with respect to the person who served as our president for the years ended December 31, 2007 and 2006 (collectively, the "Named Executive Officers"). No other executive officers received compensation in excess of $100,000 during the fiscal years ended December 31, 2007 and 2006. SUMMARY COMPENSATION TABLE -- -- --------------- Long Term Compensation -- -- --------------- Annual Compensation Awards Payouts ------------------- ------ ---------------------------- ----------------------------- ------------ -------------- (a) (b) (c) (d) (e) (f) (g) (h) (i) Name and Year Salary Bonus Other Annual Restricted Stock Securities LTIP All Other Principal ($) ($) Compensation Awards ($) Under-lying Payouts Compensation ($) Position Options/ ($) SARs (#) ------------------- ------ ------- ------ ------------- ----------------- ------------ ------------ -------------- (1) Zhilin Li 2007 0 0 0 0 0 0 0 Director, CEO and 2006 0 0 0 0 0 0 0 President ------------------- ------ ------- ------ ------------- ----------------- ------------ ------------ --------------- (1) Zhilin Li has been our CEO and president since October 20, 2005. As of January 20, 2006, Zhilin Li was elected as the director of the Company. Her salary in the fiscal year ended December 31, 2007 has not been paid as of the date of this Prospectus. 42 Stock Option Grants and Exercises We currently have no option, retirement, pension, or profit sharing programs for the benefit of the directors, officers or other employees, but the board of directors may recommend adoption of one or more such programs in the future. Employment, Severance and Change of Control Agreements Ms. Zhilin Li entered into an Employment Agreement with Helpson, which provides that Ms. Li is employed by Helpson to perform executive management. The term of her employment is from July 1, 2005 to June 30, 2010. Her annual salary is RMB800,000 or approximately $100,000. Mr. Xinhua Wu was employed by Helpson to act as its CFO. The term of his employment is from July 1, 2005 to June 30, 2010. His annual salary is RMB500,000 or approximately $62,500. Ms. Jian Yang was employed by Helpson to act as its Deputy General Manager. The term of her employment is from July 1, 2005 to June 30, 2010. Her annual salary is RMB500,000 or approximately $62,500. Ms. Zhilin Li was paid RMB 150,000 as the compensation for acting as the Company's director, CEO and president during the fiscal year ended June 30, 2005. Mr. Xinhua Wu and Ms. Jian Yang received no compensation for acting as officers during the fiscal year ended June 30, 2005. Ms. Zhilin Li, Mr. Xinhua Wu and Ms. Jian Yang have not received any compensation for acting as officers during the fiscal years ended December 31, 2006 and December 31, 2007 as of the date of this Prospectus. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS None. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of June 27, 2008 and (i) all persons who are known to us to be beneficial owners of five percent or more of the common stock, (ii) each of our Directors, and (iii) all current Directors and executive officers as a group. 43 SHARES NAME AND ADDRESS OF BENEFICIALLY PERCENT OF BENEFICIAL OWNER (1) OWNED CLASS OWNED Named Executive Officers and Directors Zhilin Li 10,000,000 23.65% Beneficial Owners of Five Percent or More Heung Mei Tsui 10,812,651 25.57% Jian Yang 2,278,815 5.39% Total Shares Owned by 23,091,466 54.62% Persons Named Above (1) The address of Ms. Li and Ms. Tsui is 2nd Floor, No.17, Jinpan Road, Haikou, Hainan Province, China. The address of Ms. Yang is 1 Haoyuan ST, RM 5B, Blog 7, Asia Luxury Garden, Haikou, Hainan Province, China. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to the securities. Unless otherwise indicated by footnote, the persons named in the table have sole voting and sole investment power with respect to all shares of common stock shown as beneficially owned by them, subject to the applicable community property laws. Percentage of beneficial ownership is based on 42,278,938 shares of our common stock outstanding as of June 27, 2008. SELLING SECURITY HOLDERS We have prepared this Prospectus to allow the selling stockholders or their pledgees, donees, transferees or other successors in interest, to sell up to 6,450,000 shares of our common stock. All of the common stock offered by this Prospectus is being offered by the selling stockholders for their own accounts. The following tables set forth: o the name of the selling stockholders, o the number of shares of our common stock that the selling stockholders beneficially owned prior to the offering for resale of the shares under this Prospectus, o the number of shares of our common stock that may be offered for resale for the account of the selling stockholders under this prospectus, and 44 o the number and percentage of shares of our common stock to be beneficially owned by the selling stockholders after the offering of the resale shares (assuming all of the offered resale shares are sold by the selling stockholders). Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to outstanding voting securities, as well as any voting securities which the person has the right to acquire within 60 days, through the conversion or exercise of any security or other right. The information as to the number of shares of our common stock owned by each selling security holder is based upon our books and records and the information provided by our transfer agent. We may amend or supplement this prospectus, from time to time, to update the disclosure set forth in the table. Because the selling security holders identified in the table may sell some or all of the shares owned by them which are included in this prospectus, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the shares, no estimate can be given as to the number of shares available for resale hereby that will be held by the selling security holders upon termination of this offering. We have, therefore, assumed for the purposes of the following table, that the selling security holders will sell all of the shares owned beneficially by them, which are covered by this prospectus, but will not sell any other shares of our common stock that they presently own.

------------------------------------ ---------------------- ------------------- ----------------------- Number of Shares of Number of Shares Shares of Common Stock Name Common Stock Offered Pursuant Beneficially Owned Beneficially Owned to this Prospectus After the Offering * Prior to the Offering ------------------------------------ ---------------------- ------------------- ----------------------- Number Percent ------------------------------------ ---------------------- ------------------- ------------ ----------- ------------------------------------ ---------------------- ------------------- ------------ ----------- Pope Investments LLC (1) 2,500,000 2,500,000 0 0% ------------------------------------ ---------------------- ------------------- ------------ ----------- Guerrilla Partners, LP (2) 609,375 609,375 0 0% ------------------------------------ ---------------------- ------------------- ------------ ----------- Hua-Mei 21st Century Partners, LP (3) 937,500 937,500 0 0% ------------------------------------ ---------------------- ------------------- ------------ ----------- Guerrilla IRA Partners, LP (4) 15,625 15,625 0 0% ------------------------------------ ---------------------- ------------------- ------------ ----------- Lake Street Fund, L.P. (5) 781,250 781,250 0 0% ------------------------------------ ---------------------- ------------------- ------------ ----------- Gregory Cook Wedbush Morgan Sec Inc. 15,625 15,625 0 0% CTDN/ IRA Contributory 1/16/02 (6) ------------------------------------ ---------------------- ------------------- ------------ ----------- Fred L. Astman Wedbush Securities Inc Cust/ IRA R/O Holding 10/13/92 375,000 375,000 0 0% (7) ------------------------------------ ---------------------- ------------------- ------------ ----------- Joseph Anthony Cardaropoli Wedbush Morgan Securities CTDN/ IRA Rollover 15,625 15,625 0 0% 1/12/06 (8) ------------------------------------ ---------------------- ------------------- ------------ ----------- John Peter Selda Wedbush Morgan Securities Inc. CTDN/ IRA 62,500 62,500 0 0% Contributory 08/27/96 (9) ------------------------------------ ---------------------- ------------------- ------------ ----------- Heller Capital Investments, LLC (10) 250,000 250,000 0 0% ------------------------------------ ---------------------- ------------------- ------------ ----------- Chestnut Ridge Partners, LP (11) 187,500 187,500 0 0% ------------------------------------ ---------------------- ------------------- ------------ ----------- 45 Kensington Partners, L.P. (12) 178,125 178,125 0 0% ------------------------------------ ---------------------- ------------------- ------------ ----------- Bald

Eagle Fund, Ltd. (13) 9,375 9,375 0 0%
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------------------- ------------ ----------- Straus Partners, L.P. (14)
112,500 112,500 0 0% ------------------------------------
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Straus-GEPT Partners, L.P. (15) 75,000 75,000 0 0%
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------------------- ------------ ----------- Sandor Capital Master Fund,
L.P. (16) 62,500 62,500 0 0% ------------------------------------
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MidSouth Investor Fund LP (17) 62,500 62,500 0 0%
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------------------- ------------ ----------- FirsTrust Group, Inc. (18)
150,000 150,000 0 0% ------------------------------------
---------------------- ------------------- ------------ ----------- Hayden
Communications International, 50,000 50,000 0 0% Inc. (19)
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------------------- ------------ ----------- TOTAL SHARES
OFFERED 6,450,000 6,450,000 ------------------------------------
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Assumes that all shares of common stock registered will be sold and that all shares of common stock underlying warrants will be issued and sold. (1) Includes (a) 2,000,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 500,000 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (2) Includes (a) 487,500 shares of our common stock purchased in the 2008 Private Placement; and (b) 121,875 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (3) Includes (a) 750,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 187,500 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (4) Includes (a) 12,500 shares of our common stock purchased in the 2008 Private Placement; and (b) 3,125 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (5) Includes (a) 625,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 156,250 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (6) Includes (a) 12,500 shares of our common stock purchased in the 2008 Private Placement; and (b) 3,125 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (7) Includes (a) 300,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 75,000 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (8) Includes (a) 12,500 shares of our common stock purchased in the 2008 Private Placement; and (b) 3,125 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (9) Includes (a) 50,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 12,500 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (10) Includes (a) 200,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 50,000 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (11) Includes (a) 150,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 37,500 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. 46 (12) Includes (a) 142,500 shares of our common stock purchased in the 2008 Private Placement; and (b) 35,625 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (13) Includes (a) 7,500 shares of our common stock purchased in the 2008 Private Placement; and (b) 1,875 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (14) Includes (a) 90,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 22,500 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (15) Includes (a) 60,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 15,000 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (16) Includes (a) 50,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 12,500 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (17) Includes (a) 50,000 shares of our common stock purchased in the 2008 Private Placement; and (b) 12,500 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share purchased in our 2008 Private Placement. (18) Includes (a) 75,000 shares of our common stock issuable upon exercise of warrants with an exercise price of $2.80 per share and (b) 75,000 shares of our common stock issuable upon exercise of warrants with an exercise price of $3.60 per share. FirsTrust Group, Inc. received the warrants as part of the compensation for the management consulting and advisory services provided to us by its wholly owned subsidiary, FirsTrust China Ltd. (19) Includes (a) 25,000 shares of our common stock issuable upon exercise of warrants with an exercise price of $3.00 per share and (b) 25,000 shares of our common stock issuable upon exercise of warrants with an exercise price of $3.50 per share. Hayden Communications International, Inc. received the warrants as part of the compensation for its consulting services. None of the selling stockholders are broker-dealers or affiliates of broker-dealers. None of the selling stockholders has, or within the past three years has had, any position, office or other material relationship with us or any of our predecessors or affiliates, other than as described previously in this section. We will not receive any proceeds from the resale of the common stock by the selling stockholders. To the extent the warrants are exercised on a cash basis, we will receive the exercise price of those warrants. We have agreed to bear expenses incurred by the selling stockholders that relate to the registration of shares being offered and sold by the selling stockholders, including the SEC registration fee and legal, accounting, printing and other expenses of this offering. DESCRIPTION OF SECURITIES The descriptions in this section and in other sections of this Prospectus of our 47 securities and various provisions of our Restated and Amended Certificate of Incorporation and our Restated and Amended Bylaws are limited solely to descriptions of the material terms of our securities, Articles of Incorporation and Bylaws. Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws have been filed with the SEC as exhibits to our registration statement of which this Prospectus forms a part. Common Stock The authorized capital stock of the Company consists of 60,000,000 shares of common stock, $0.001 par value per share (the "Common Stock"). As of the date of this Prospectus, approximately 42,278,938 shares of Common Stock were issued and outstanding. The holders of our Common stock are entitled to equal dividends and distributions per share with respect to the common stock when and if declared by the Board of Directors from funds legally available therefore. No holder of any shares of our Common stock has a preemptive right to subscribe for any of our securities. Upon liquidation, dissolution, or winding up of us, and after payment of creditors and preferred stockholders, the assets will be divided pro-rata on a share-for-share basis among the holders of the shares of Common Stock. All shares of Common Stock now outstanding are fully paid, validly issued, and non-assessable. Each share of Common Stock is entitled to one vote with respect to the election of any director or any other matter upon which stockholders are required or permitted to vote. Holders of the Common Stock do not have cumulative voting rights, so the holders of more than 50% of the combined shares voting for the election of directors may elect all of the directors if they choose to do so, and, in that event, the holders of the remaining shares will not be able to elect any members to the board of directors. Warrants In the 2007 Private Placement, we issued to 17 accredited investors three-year warrants to purchase an aggregate of 1,252,941 shares of our common stock with an exercise price of $2.38 per share. In December 2007, we received proceeds of $119,000 upon the exercise of warrants to purchase 50,000 shares of common stock. The remaining warrants issued in conjunction with the offering to buy 1,202,941 shares of common stock have not been exercised at December 31, 2007. In the 2008 Private Placement, we issued to 17 accredited investors three-year warrants to purchase an aggregate of 1,250,000 shares of our common stock with an exercise price of $2.80 per share. On June 24, 2008, the Company issued to FirsTrust Group, Inc. three-year warrants to purchase 75,000 shares of the Company's common stock at $2.80 per share and three-year warrants to purchase 75,000 shares of the Company's common stock at $3.60 per share. The Company issued these warrants as equity compensation under the Consulting Agreement and the Supplementary Agreement entered into between the Company and FirsTrust China Ltd. (the wholly-owned subsidiary of FirsTrust Group, Inc.). 48 On the same date, the Company issued to Hayden Communications International, Inc. three-year warrants to purchase 25,000 shares of the Company's common stock at $3.00 per share and three-year warrants to purchase 25,000 shares of the Company's common stock at $3.50 per share. The Company issued these warrants as equity compensation under the Investor Relations Consulting Agreement entered into between the Company and Hayden Communications International, Inc. Shares Eligible for Future Sale On June 27, 2008, 42,278,938 shares of our common stock were outstanding. Of the total outstanding shares, 10,384,351 shares of common stock are immediately eligible for sale in the public market without restriction or further registration under the Securities Act. All other outstanding shares of our common stock are "restricted securities" as such term is defined under Rule 144, in that such shares were issued in private transactions not involving a public offering and may not be sold in the absence of registration other than in accordance with Rules 144, 144(k), or 701 promulgated under the Securities Act or another exemption from registration. In general, under Rule 144 as currently in effect, a person, including an affiliate, who has beneficially owned shares for at least one year is entitled to sell, within any three-month period commencing 90 days after the date of this Prospectus, a number of shares that does not exceed the greater of one percent of the then outstanding shares of our common stock or the average weekly trading volume in our common stock during the four calendar weeks preceding the date on which notice of such sale is filed, subject to various restrictions. In addition, a person who is not deemed to have been an affiliate of ours at anytime during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years would be entitled to sell those shares under Rule 144(k) without regard to the requirements described above. To the extent that shares were acquired from an affiliate, such person's holding period for the purpose of affecting a sale under Rule 144 commences on the date of transfer from the affiliate. Future Sales of substantial amounts of our common stock under Rule 144, this Prospectus, or otherwise, could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through the future sale of our securities. Transfer Agent and Registrar The

Transfer Agent and Registrar for our common stock is Securities Transfer Corporation, 2591 Dallas Parkway, Suite 102, Frisco, Texas 75234 and its telephone number is 469.633.0100. PLAN OF DISTRIBUTION We are registering a total of 6,450,000 shares of our common stock, including 1,450,000 shares of common stock issuable upon exercise of outstanding warrants, that are being offered by the selling stockholders. As used in this Prospectus, "selling stockholders" includes the pledgees, donees, transferees or others who may later hold the selling stockholders' interests in the common stock. We will 49 pay the costs and fees of registering the common shares, but the selling stockholders will pay any brokerage commissions, discounts or other expenses relating to the sale of the common stock. We will not receive the proceeds from the sale of the common stock by the selling stockholders. We will, however, receive proceeds from the exercise of warrants to purchase shares of common stock. The selling stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market, or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares: - Ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers; - Block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; - Purchases by a broker-dealer as principal and resale by the broker-dealer for its account; - An exchange distribution in accordance with the rules of the applicable exchange; - Privately negotiated transactions; - Broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share; - A combination of any such methods of sale; and - Any other method permitted pursuant to applicable law. The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this Prospectus. Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. The selling stockholders may from time to time pledge or grant a security interest in some or all of the shares of common stock or warrants owned by them and, if they default in the performance of their secured obligations, the pledges, or secured parties may offer and sell the shares of common stock from time to time under this Prospectus, or under an amendment to this Prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act, amending the list of selling stockholders to include the pledgee, transferee, or other successors in interest as selling stockholders under this Prospectus. LEGAL MATTERS The validity of the securities offered by this Prospectus will be passed upon for us by King & Wood LLP. 50 EXPERTS Our financial statements as of and for the years ended December 31, 2007 and 2006 included in this prospectus have been audited by Hansen, Barnett & Maxwell, P.C., independent registered public accounting firm, as indicated in their report with respect thereto, and have been so included in reliance upon the report of such firm given on their authority as experts in accounting and auditing. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE None. WHERE YOU CAN FIND ADDITIONAL INFORMATION We have filed with the SEC a registration statement on Form S-1 under the Securities Act in connection with the offering of the common stock by the selling stockholders. This Prospectus, which is part of the registration statement, does not contain all of the information included in the registration statement. Some information is omitted and you should refer to the registration statement and its exhibits. With respect to references made in this Prospectus to any contract, agreement or other document of ours, such references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document. We are subject to the informational requirements of the Securities Exchange Act of 1934 which requires us to file reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information may be inspected at public reference facilities of the SEC at 100 F Street N.E. Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 100 F Street N.E. Washington, D.C. 20549 at prescribed rates. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC's internet website at http://www.sec.gov. 51 F-25 CHINA PHARMA HOLDINGS, INC. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS CONTENTS F-1 CHINA PHARMA HOLDINGS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited) March 31, December 31, 2008 2007 ----------- ----------- (Restated) ASSETS Current Assets: Cash and cash equivalents $ 682,017 $ 1,830,335 Trade accounts receivable, less allowance for doubtful accounts of $3,019,930 and $2,440,852, respectively 24,804,992 18,572,976 Other receivables, less allowance for doubtful accounts of $64,230 and $43,908, respectively 476,749 413,596 Advances to suppliers 1,568,111 2,757,320 Inventory 14,810,192 14,448,771 ----------- ----------- Total Current Assets 42,342,061 38,022,998 ----------- ----------- Non-current Assets: Property and equipment, net of accumulated depreciation of $1,150,987 and $1,003,802, respectively 2,636,030 2,625,216 Intangible assets, net of accumulated amortization of $291,809 and $221,715, respectively 2,515,356 2,063,252 Advances for purchase of intangible assets 2,801,633 807,345 Deferred tax assets 195,303 187,509 ----------- ----------- Total Non-current Assets 8,148,322 5,683,322 ----------- ----------- TOTAL ASSETS $50,490,383 $43,706,320 ----------- ----------- LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities: Trade accounts payable $ 590,722 $ 297,299 Accrued expenses 265,008 261,301 Accrued taxes payable 1,078,850 311,009 Other payables 42,521 86,161 Advances from customers 359,646 261,583 Short-term notes payable 2,420,894 2,693,428 ----------- ----------- Total Current Liabilities 4,757,641 3,910,781 ----------- ----------- Research and development commitments 35,601 34,181 ----------- ----------- Total Liabilities 4,793,242 3,944,962 ----------- ----------- Stockholders' Equity: Common stock, $0.001 par value, 60,000,000 shares authorized, 37,278,938 shares issued and outstanding 37,279 37,279 Additional paid-in capital 11,678,606 11,678,606 Foreign currency translation adjustment 4,584,546 2,839,304 Retained earnings 29,396,710 25,206,169 ----------- ----------- Total Stockholders' Equity 45,697,141 39,761,358 ----------- ----------- TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY $50,490,383 $43,706,320 ----------- ----------- The accompanying notes are an integral part of these condensed consolidated financial statements. F-2 CHINA PHARMA HOLDINGS, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited) For the three months ended March 31, 2008 2007 ------------ ------------ Revenue $ 11,717,045 $ 7,233,768 Cost of revenue 5,909,768 3,934,849 ------------ ------------ Gross profit 5,807,277 3,298,919 ------------ ------------ Operating expenses: Selling expenses 337,792 147,883 General and administrative 815,793 1,306,086 ------------ ------------ Total operating expenses 1,153,585 1,453,969 ------------ ------------ Income from operations 4,653,692 1,844,950 ------------ ------------ Non-operating income (expenses): Interest income -- 13,775 Interest expense (45,273) (56,899) Other income -- 572,213 ------------ ------------ Total non-operating income (expense) (45,273) 529,089 ------------ ------------ Income before taxes 4,608,419 2,374,039 Income tax expense 417,878 -- ------------ ------------ Net income $ 4,190,541 $ 2,374,039 ------------ ------------ Comprehensive income - foreign currency translation adjustments 1,745,242 216,416 ------------ ------------ Comprehensive income $ 5,935,783 $ 2,590,455 ------------ ------------ Basic and Diluted Earnings Per Share $ 0.11 $ 0.07 ------------ ------------ Basic and Diluted Weighted Average Shares Outstanding 37,278,938 36,337,958 ------------ ------------ The accompanying notes are an integral part of these condensed consolidated financial statements. F-3 CHINA PHARMA HOLDINGS, INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) For the three months ended March 31, 2008 2007 ----------- ----------- (Restated) Cash Flows from Operating Activities: Net income $ 4,190,541 $ 2,374,039 Depreciation and amortization 162,779 100,063 Gain on sale of intangibles -- (569,398) Changes in assets and liabilities: Trade accounts receivable (5,343,190) (1,728,236) Other receivables (44,977) (739,783) Advances to suppliers 1,275,939 (1,095,219) Inventory 234,072 (1,092,813) Deferred offering costs -- 59,743 Trade accounts payable 275,053 247,713 Accrued expenses (7,001) 27,960 Accrued taxes payable 738,767 78,756 Other payables (46,030) 88,814 Advances from customers 85,325 6,571 ----------- ----------- Net Cash from Operating Activities 1,521,278 (2,241,790) ----------- ----------- Cash Flows from Investing Activities: Purchase of property and equipment (6,994) (2,360) Proceeds from the sale of intangibles -- 38,453 Purchase of intangible assets (418,079) -- Advances for purchase of intangible assets (1,918,791) 836,404 ----------- ----------- Net Cash from Investing Activities (2,343,864) 872,497 ----------- ----------- Cash Flows from Financing Activities: Proceeds from sale of common stock and warrants -- 3,797,183 Payments of short term notes payable (376,271) -- Related party payables/receivables -- (138,860) ----------- ----------- Net Cash from Financing Activities (376,271) 3,658,323 ----------- ----------- Effect of Exchange Rate Changes on Cash 50,539 5,247 ----------- ----------- Net Change in Cash (1,148,318) 2,294,277 ----------- ----------- Cash and Cash Equivalents at Beginning of Period 1,830,335 656,441 ----------- ----------- Cash and Cash Equivalents at End of Period $ 682,017 $ 2,950,718 ----------- ----------- Supplemental Cash Flow Disclosure: Cash paid for interest $ 83,515 $ 56,899 Cash paid for income taxes -- -- The accompanying notes are an integral part of these condensed consolidated financial statements. F-4 CHINA PHARMA HOLDINGS, INC. UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 (unaudited) NOTE 1 - BASIS OF PRESENTATION The accompanying unaudited condensed consolidated financial statements of China Pharma Holdings, Inc. (the Company) and its subsidiaries were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company

(Management) believes that the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Form 10-KSB report for the year ended December 31, 2007. 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 months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008. Organization - Onny Investment Limited (Onny) was incorporated in the British Virgin Islands on January 12, 2005 and was a development stage enterprise through June 15, 2005. On June 16, 2005, Onny acquired all of the outstanding shares of Hainan Helpson Medical & Biotechnology Co., Ltd, a privately held Chinese joint venture (Helpson) and emerged from the development stage. On October 19, 2005, Onny was reorganized as a wholly owned subsidiary of China Pharma Holdings, Inc., formerly TS Electronics, Inc. (the Company). Nature of Operations - Helpson manufactures and markets several Western and Chinese medicines sold mainly to hospitals and private retailers in the People's Republic of China (PRC), through its marketing department located in Hainan Province. There are also nine other offices, with sales representatives in other provinces and cities throughout the PRC. Helpson's other operating activities include biochemical products, health products, and cosmetics. Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Basic and Diluted Earnings per Common Share - Basic and diluted earnings per common share are computed by dividing net income by the weighted-average number of common shares outstanding. As of March 31, 2008 and 2007 potentially dilutive securities includes warrants outstanding to purchase a total of 1,202,941 and 1,252,941 shares, respectively, of the Company's common stock at an exercise price of $2.38 per share. These have not been included in the computation of earnings per share as their effect is antidilutive. F-5 Recently Enacted Accounting Standards - In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The adoption of the portions of SFAS No. 157 that were not postponed by (FSP FIN) No. 157-2 did not have a material impact on our consolidated financial statements. The Company does not expect the adoption of the postponed portions of SFAS No. 157 to have a material impact on our consolidated financial statements. In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements, consolidated net income shall be adjusted to include the net income attributed to the non-controlling interest and consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the non-controlling interest. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. SFAS No. 141(R) and SFAS No. 160 are not expected to have a material impact on our results of operations or financial position. Restatement of Financial Statements - Subsequent to March 2008, the Company realized that the December 31, 2007 consolidated financial statements needed to be revised to correct an overstatement of advances paid to suppliers in the amount of $724,628, an overstatement of other receivables in the amount of $82,717, and an understatement of advance for purchase of intangible assets in the amount of $807,345. The Company concluded that advances made for purchase of intangible assets should be treated as a long-term asset. This correction was not considered material in accordance with SAB 108 for the year ended December 31, 2007 but is considered significant. As a result, the Company corrected the financial statements for December 31, 2007. The corrected consolidated balance sheet is included in these financial statements. The correction of the December 31, 2007 financial statements had no effect on the previously reported net income. The effect of the restatement was as follows: F-6 Reported Restatement As Restated ------------ ------------ ------------ Consolidated Balance Sheet as of December 31, 2007 Other receivables $ 496,313 $ (82,717) $ 413,596 Advances to suppliers 3,481,948 (724,628) 2,757,320 Total Current Assets 38,830,343 (807,345) 38,022,998 Advances for purchase of intangible assets -- 807,345 807,345 ------------

------------ ------------ TOTAL ASSETS $ 43,706,320 $ -- $ 43,706,320 ------------ ------------ ------------ Consolidated Statement of Cash Flows For the year ended December 31, 2007 Other receivables $ (111,660) $ 79,426 $ (32,234) Advances to suppliers (1,028,119) 853,332 (174,867) Net Cash provided by Operating Activities 2,801,898 932,758 3,734,656 Advance for purchase of intangible assets -- (932,758) (932,758) Net Cash used in Investing Activities (1,479,531) (932,758) (2,412,289) ------------ ------------ ------------ Net Change in Cash $ 1,173,894 $ -- $ 1,173,894 ------------ ------------ ------------ NOTE 2 - INVENTORY Inventory consisted of the following: March 31, December 31, 2008 2007 ----------- ----------- Raw materials $11,770,466 $12,521,536 Work in progress 62,915 60,404 Finished goods 2,976,811 1,866,831 ----------- ----------- Total Inventory $14,810,192 $14,448,771 ----------- ----------- NOTE 3 - PROPERTY AND EQUIPMENT Property and equipment consisted of the following: March 31, December 31, 2008 2007 ----------- ----------- Permit of land use $ 401,110 $ 385,102 Building 1,826,439 1,753,547 Plant, machinery and equipment 1,397,780 1,341,996 Motor vehicle 44,818 37,193 Office equipment 92,945 88,210 Construction in progress 23,925 22,970 ----------- ----------- Total 3,787,017 3,629,018 Less: accumulated depreciation (1,150,987) (1,003,802) ----------- ----------- Property and Equipment, net $ 2,636,030 $ 2,625,216 ----------- ----------- F-7 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 5 For the three months ended March 31, 2008 and 2007, depreciation expense was $103,203 and $93,307, respectively. NOTE 4 - INTANGIBLE ASSETS Intangible assets represent the costs on patents, trademarks, licenses, techniques and formulas. Intangible assets have a weighted-average remaining useful life of approximately 9.25 years. Amortization of intangible assets was $59,576 and $6,756 for the three months ended March 31, 2008 and 2007, respectively. In January, 2007 the Company entered into an agreement to acquire a certain pharmaceutical formula from an unrelated party for cash for an aggregate purchase price of $427,217. This has been recorded under the caption Intangible assets in the accompanying balance sheet as of March 31, 2008. NOTE 5 - DEBT Short Term Notes Payable -On July 13, 2007, the Company entered into a new line of credit with the bank collateralized by certain land use rights, machinery and equipment. The outstanding advances made under the line of credit were $2,420,894 and $2,324,278 at March 31, 2008 and December 31, 2007, respectively. The line of credit was renewed during the first quarter of 2008 with due dates of August and September of 2008 and bears interest payable monthly at the rate of 7.84%. Short Term Notes Payable to Former Shareholders - In January 2006, the Company converted its dividend payable of $4,402,147 into short-term notes bearing interest at a rate of 2.25% per annum. The final principal balance of $369,150 was paid in January, 2008. The accrued interest of $215,933 is still outstanding and is included in accrued liabilities. NOTE 6 - INCOME TAXES The Company accounts for its income taxes in accordance with SFAS No. 109, which requires recognition of deferred tax assets and liabilities and their respective tax bases and any tax credit carry forwards available. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Undistributed earnings of the Company's foreign subsidiary since acquisition amounted to approximately $26 million at March 31, 2008. Those earnings, as well as the investment in the subsidiaries of approximately $17 million are considered to be indefinitely reinvested and, accordingly, no U.S. federal and state income taxes have been provided thereon. Upon distribution of those F-8 earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to 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. On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law, (EIT Law), and on December 6, 2007, the State Council of China issued the Implementation Regulations for the EIT Law which took effect on January 1, 2008. The EIT Law and Implementation Regulations Rules impose a unified EIT of 25% on all domestic-invested enterprises and Foreign Invested Entities, or FIEs, unless they qualify under certain limited exceptions. The Company is located in a special region, which had a 15% corporate income tax rate before the new EIT Law. The new EIT Law abolished the preferential corporate income tax rate in the special region. However, because the Company was in existence prior to the March 16, 2007 China tax law change, it will gradually transit to the new 25% tax rate over the next five years starting on January 1, 2008. The phase-in income tax rate is 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011, and 25% for 2012 and after. Also, the Company is permitted to use their remaining tax holiday, so they will continue to have a favorable income tax rate of 50% in effect during fiscal 2008 through 2010 as determined by the PRC government and the regional tax authorities. As a result of the above changes, starting from 2008, the Company's enterprise income tax rate will be: Year Enterprise Income Tax Rate ---- -------------------------- 2008 9% 2009 10% 2010 11% 2011 24% 2012 and after 25% The Company has also incurred various other taxes, comprised primarily of business taxes, value-added taxes, urban construction taxes, education surcharges and others. Any unpaid amounts are reflected on the balance sheets as accrued taxes payable. NOTE 7 - STOCKHOLDERS' EQUITY The Company has outstanding warrants to purchase an aggregate of 1,202,941 shares of Company's common stock at an exercise price of $2.38 per share which expire on January 29, 2010. NOTE 8 - 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. F-9 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 9 - SUBSEQUENT EVENTS On May 30, 2008 the Company completed an offering of Units priced at $2.00 per Unit consisting of one share of Company common stock and a three-year warrant to purchase one-fourth of one share of Company common stock at an exercise price of $2.80 per share. The Company issued 5,000,000 shares of common stock and three-year warrants to purchase 1,250,000 shares of common stock to 17 accredited investors for gross proceeds of $10,000,000. The net proceeds, after deduction of related offering expenses of $731,062, amounted to $9,268,938. In addition, the placement agent in the transaction was issued three-year warrants to purchase 300,000 shares of common stock at an exercise price of $2.98 per share. The proceeds were allocated to the warrants issued to the investors and the placement agent based upon their fair values of $1,090,342 and $249,366, respectively and the balance of the proceeds of $8,952,511 was allocated to the shares of common stock. The fair value of the warrants, determined using the Black-Scholes Option Pricing Model, was calculated using the following assumptions: risk free interest rate of 2.93%, expected dividend yield of 0%, expected volatility of 62.9% and an expected life of 3 years. The common shares and the shares underlying the warrants have registration rights, and the Company is required to file a registration statement including said shares with the Securities and Exchange Commission. In the event that the Company does not file a registration statement within 45 days of the closing date of the offering, or the registration statement is not declared effective within the 90 or 120 day time periods from the closing date as defined in the registration rights agreement, or if the Company fails to keep the registration statement effective, the Company will be required to pay a penalty to each investor equal to one percent (1%) of the purchase price for each 30 day period. The Company estimates that the probability of not filing the registration statement within the allowed time period is remote; therefore no accrual has been made for these potential penalties. The Company will evaluate any liability related to the effectiveness date of the registration statement at the end of each reporting period. On June 24, 2008, the Company issued three-year warrants to purchase 75,000 shares of Company common stock at $2.80 per share and three-year warrants to purchase 75,000 shares of the Company's common stock at $3.60 per share to a vendor valued at $90,487. Also on June 24, 2008, the Company issued three-year warrants to purchase 25,000 shares of Company common stock at $3.00 per share and three-year warrants to purchase 25,000 shares of the Company's common stock at $3.50 per share to a vendor valued at $29,554. The fair values of the warrants issued on June 24, 2008, determined using the Black-Scholes Option Pricing Model, were calculated using the following assumptions: risk free interest rate of 3.14%, expected dividend yield of 0%, expected volatility of 61.3% and an expected life of 3 years. F-10 HANSEN, BARNETT & MAXWELL, P.C. A Professional Corporation CERTIFIED PUBLIC ACCOUNTANTS 5 Triad Center, Suite 750 Salt Lake City, UT 84180-1128 Phone: (801) 532-2200 Fax: (801) 532-7944 www.hbmcpas.com REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and the Stockholders of China Pharma Holdings, Inc. We have audited the consolidated balance sheets of China Pharma Holdings, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Pharma Holdings, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1, the accompanying consolidated financial statements have been restated for the effects of correcting the classification of other receivables and advances to suppliers as of December 31, 2007 and 2006. HANSEN, BARNETT & MAXWELL, P.C. Salt Lake City, Utah March 28, 2008, except for Note 1 regarding the restatement of financial statements, as to which the date is May 3, 2008 F-11 CHINA PHARMA HOLDINGS, INC. CONSOLIDATED BALANCE SHEETS December 31, December 31, 2007 2006 ----------- ----------- ASSETS Current Assets: Cash and cash equivalents $ 1,830,335 $ 656,441 Trade accounts receivable, less allowance for doubtful accounts of $2,440,852 and $1,562,494, respectively 18,572,976 12,101,979 Other receivables, less allowance for doubtful accounts of $43,908 and $27,517, respectively 413,596 355,554 Deferred offering costs -- 59,390 Advances to suppliers 2,757,320 746,443 Inventory 14,448,771 10,277,887 ----------- ----------- Total Current Assets 38,022,998 24,197,694 ----------- ----------- Non-current Assets: Property and equipment, net of accumulated depreciation of $1,003,802 and $619,645, respectively 2,625,216 2,725,173 Intangible assets, net of accumulated amortization of $221,715 and $135,656, respectively 2,063,252 65,344 Advances for purchase of intangible assets 807,345 1,509,434 Deferred tax assets 187,509 16,736 ----------- ----------- Total Non-current Assets 5,683,322 4,316,687 ----------- ----------- TOTAL ASSETS $43,706,320 $28,514,381 ----------- ----------- LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities: Trade accounts payable $ 297,299 $ 477,291 Accrued expenses 261,301 104,216 Accrued taxes payable 311,009 167,419 Other payables 86,161 185,096 Advances from customers 261,583 141,871 Accounts payable - related parties -- 22,650 Short-term notes payable 2,693,428 6,533,649 ----------- ----------- Total Current Liabilities 3,910,781 7,632,192 ----------- ----------- Research and development commitments 34,181 31,980 ----------- ----------- Total Liabilities 3,944,962 7,664,172 ----------- ----------- Stockholders' Equity: Common stock, $0.001 par value, 60,000,000 shares authorized, 37,278,938 and 34,723,056 shares issued and outstanding, respectively 37,279 34,723 Additional paid-in capital 11,678,606 7,764,979 Foreign currency translation adjustment 2,839,304 663,871 Retained earnings 25,206,169 12,386,636 ----------- ----------- Total Stockholders' Equity 39,761,358 20,850,209 ----------- ----------- TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY $43,706,320 $28,514,381 ----------- ----------- The accompanying notes are an integral part of these consolidated financial statements. F-12 CHINA PHARMA HOLDINGS, INC. CONSOLIDATED STATEMENTS OF

OPERATIONS AND COMPREHENSIVE INCOME For the years ended December 31, ---------------------------- 2007 2006 ------------ ------------ Revenue $ 33,186,324 $ 21,843,262 Cost of revenue 17,619,180 11,745,815 ------------ ------------ Gross profit 15,567,144 10,097,447 ------------ ------------ Operating expenses: Selling expenses 1,436,609 260,128 General and administrative 1,879,306 1,213,828 ------------ ------------ Total operating expenses 3,315,915 1,473,956 ------------ ------------ Income from operations 12,251,229 8,623,491 ------------ ------------ Non-operating income (expenses): Interest income 31,805 991 Interest expense (237,398) (145,881) Other income 611,025 108,485 ------------ ------------ Total non-operating income (expense) 405,432 (36,405) ------------ ------------ Income before taxes 12,656,661 8,587,086 Income tax benefit 162,872 -- ------------ ------------ Net income $ 12,819,533 $ 8,587,086 ------------ ------------ Comprehensive income - foreign currency 2,175,433 563,945 translation adjustments -- -- Comprehensive income $ 14,994,966 $ 9,151,031 ------------ ------------ Earnings Per Share: Basic $ 0.35 $ 0.25 Diluted $ 0.34 $ 0.25 ------------ ------------ Weighted Average Shares Outstanding: Basic 37,009,655 34,723,056 Diluted 37,259,909 34,723,056 ------------ ------------ The accompanying notes are an integral part of these consolidated financial statements. F-13 CHINA PHARMA HOLDINGS, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Accumulated Common Stock Additional Other Total ------------------------ Paid-in Comprehensive Retained Stockholders' Shares Amount Capital Income Earnings Equity ----------- ----------- ----------- ----------- ----------- ----------- Balance, December 31, 2005 34,723,056 $ 34,723 $ 7,764,979 $ 99,926 $ 3,799,550 $11,699,178 Net income for the year -- -- -- -- 8,587,086 8,587,086 Foreign currency translation adjustment -- -- -- 563,945 -- 563,945 ----------- ----------- ----------- ----------- ----------- ----------- Balance, December 31, 2006 34,723,056 34,723 7,764,979 663,871 12,386,636 20,850,209 Shares and warrants issued for cash 2,505,882 2,506 3,794,677 -- -- 3,797,183 Exercise of warrants for cash 50,000 50 118,950 -- -- 119,000 Net income for the year -- -- -- -- 12,819,533 12,819,533 Foreign currency translation adjustment -- -- -- 2,175,433 -- 2,175,433 ----------- ----------- ----------- ----------- ----------- ----------- Balance, December 31, 2007 37,278,938 $ 37,279 $11,678,606 $ 2,839,304 $25,206,169 $39,761,358 ----------- ----------- ----------- ----------- ----------- ----------- The accompanying notes are an integral part of these consolidated financial statements. F-14 CHINA PHARMA HOLDINGS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS For the years ended December 31, ---------------------------- 2007 2006 ------------ ------------ Cash Flows from Operating Activities: Net income $ 12,819,533 $ 8,587,086 Depreciation and amortization 422,443 397,001 Gain on sale of intangibles (580,922) -- Changes in assets and liabilities: Trade accounts receivable (5,413,718) (6,077,526) Other receivables (32,234)

42,642 Advances to suppliers (174,867) (61,345) Inventory (3,325,681) (4,214,702) Deferred tax assets (162,872) 115,564 Deferred offering costs 60,952 -- Trade accounts payable (204,372) (219,427) Accrued expenses 73,451 86,265 Accrued taxes payable 126,812 (407,744) Other payables 20,558 (71,759) Advances from customers 105,573 87,612 ------------ ------------ Net Cash from Operating Activities 3,734,656 (1,736,333) ------------ ------------ Cash Flows from Investing Activities: Purchase of property and equipment (51,841) (182,346) Proceeds from the sale of intangibles 1,509,741 -- Purchase of intangible assets (2,937,431) (9,657) Advances for purchase of intangible assets (932,758) -- ------------ ------------ Net Cash from Investing Activities (2,412,289) (192,003) ------------ ------------ Cash Flows from Financing Activities: Proceeds from sale of common stock and warrants 3,797,183 -- Proceeds from exercise of warrants 119,000 -- Proceeds from short term notes payable 2,586,252 2,140,943 Payments of short term notes payable (6,705,456) -- Proceeds from loan from shareholder -- 22,650 Payment of offering costs -- (58,167) ------------ ------------ Net Cash Proceeds from Financing Activities (203,021) 2,105,426 ------------ ------------ Effect of Exchange Rate Changes on Cash 54,548 18,131 ------------ ------------ Net Change in Cash 1,173,894 195,221 ------------ ------------ Cash and Cash Equivalents at Beginning of Period 656,441 461,220 ------------ ------------ Cash and Cash Equivalents at End of Period $ 1,830,335 $ 656,441 ------------ ------------ The accompanying notes are an integral part of these consolidated financial statements. F-15 CHINA PHARMA HOLDINGS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES Organization - Onny Investment Limited (Onny) was incorporated in the British Virgin Islands on January 12, 2005 and was a development stage enterprise through June 15, 2005. On June 16, 2005, Onny acquired all of the outstanding shares of Hainan Helpson Medical & Biotechnology Co., Ltd, a privately held Chinese joint venture (Helpson) and emerged from the development stage. On October 19, 2005, Onny was reorganized as a wholly owned subsidiary of China Pharma Holdings, Inc., formerly TS Electronics, (Company). The reorganization was accomplished by an exchange of Onny's common shares for 25,278,385 shares of the Company's common stock resulting in a 851-for-1 exchange ratio. In addition, the prior Onny convertible preferred shareholders exchanged their shares for 6,944,611 shares of the Company's common stock resulting in a 694-for-1 exchange ratio. 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 the Company's common stock in exchange and the assumption of $4,473 in liabilities. This transaction was accounted for as a reverse acquisition of the Company and was recognized as a non-monetary exchange. Nature of Operations -

Helpson manufactures and markets several Western and Chinese medicines sold mainly to hospitals and private retailers in The People's Republic of China (PRC), through its marketing department located in the Hainan Province. There are also nine other offices, with sales representatives in other provinces and cities throughout the PRC. Helpson's other operating activities include biochemical products, health products, and cosmetics. Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. 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. The functional currency of the operating subsidiaries in the PRC is the Chinese Yuan Renminbi (CNY); however, the accompanying financial statements have been expressed in United States Dollars (USD). The accompanying consolidated balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. The accompanying consolidated statements of operations have been translated using the average exchange rates prevailing during the periods of each statement. See Note 9. The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly owned subsidiaries. All significant F-16 inter-company balances and transactions have been eliminated in consolidation. Fair Value of Financial Instruments - Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the carrying amounts of notes payable that were outstanding during the current period approximated fair value because of either the immediate or short-term maturity of these financial instruments or because the underlying instruments are at interest rates which approximated current market rates. Cash and cash equivalents - Cash and cash equivalents include interest bearing and non-interest bearing bank deposits, money market accounts, and short-term certificates of deposit with original maturities of three months or less. Cash deposits are held at financial institutions in the PRC and are not insured by the FDIC. Trade receivables and allowance for doubtful accounts - Trade receivables are carried at original invoiced amounts less an allowance for doubtful accounts. The allowances for doubtful accounts are calculated based on 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. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. A provision is made against accounts receivable to the extent they are considered unlikely to be collected. It is common practice in the PRC for receivables to extend beyond one year. Included in trade receivables is approximately $2,002,059 that occurred more than one year from December 31, 2007, but is estimated to still be collectable. Inventory - Inventories are stated at the lower of cost or net realizable value, on an average cost basis. The method of determining inventory costs is used consistently from year to year. Allowance for inventory obsolescence is provided when the market value of certain inventory items are lower than the cost. Valuation of Long-lived Assets - The carrying values of the Company's long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that they 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 were to indicate that the carrying value of the long-lived asset will not be recovered, the carrying value of the long-lived asset is reduced by the estimated excess of the carrying value over the projected discounted cash flows. There were no such impairments at December 31, 2007. Property and Equipment - Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred and major improvements are capitalized. Gains or losses on sales or retirements are included in the statement of operations in the period of disposition. Intangible Assets - Acquisition costs on patents, trademarks, licenses, techniques, formulas and other intangibles are capitalized and amortized using the straight-line method over their useful lives. For those intangible assets, such as patents, with legal protection over a period, their useful life is the protected period. Others that do not have legal protection periods are amortized F-17 generally over 5 to 10 years. The Company does not capitalize internally generated intangible assets. The Company's intangible assets consist of techniques (formulas and manufacturing processes) for medicines. Advances to Suppliers and Advances from Customers - The Company, as is the common practice in the PRC, will often pay advanced payments to suppliers for materials and receive from customers advances for finished products. As of December 31, 2007 and 2006, the advances to suppliers were $2,757,320 and $746,443, respectively, and the advances from customers were $261,583 and $141,871, respectively. Revenue Recognition - The Company recognizes revenue when it is realized and earned. The Company considers revenue realized or realizable and earned when (1) it has persuasive evidence of an arrangement, (2) delivery has occurred, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped to the client, risk of loss has transferred to the client and client acceptance has been obtained, client acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in client 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. Cost of Revenues - Cost of revenues includes wages, materials, handling charges, and other expenses associated with the manufacture and delivery of product. Research and Development - Research and development expenditures are recorded as expenses in the period in which they occur. Retirement Benefit Plans - The Company contributes to various employee retirement benefit plans organized by provincial governments under which it is required to make monthly contributions to these plans at rates prescribed by the related provincial governments. The provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Company. Contributions to these plans are charged to expense as incurred. Advertising Costs - Advertising costs are expensed when incurred. Total advertising expense for the years ended December 31, 2007 and 2006 were $10,393 and $3,446, respectively. Basic and Diluted Earnings per Common Share - Basic and diluted earnings per common share are computed by dividing net income by the weighted-average number of common shares outstanding. As of December 31, 2007 potentially dilutive securities includes warrants outstanding to purchase a total of 1,202,941 shares of Company common stock at an exercise price of $2.38 per share. There are no dilutive securities outstanding at December 31, 2006. The following table is a reconciliation of the numerators and denominators used in the calculation of basic and diluted earnings per share and the weighted-average common shares outstanding, respectively: F-18 For the Years Ended December 31, 2007 2006 ----------- ----------- Net income $12,819,533 $ 8,587,086 ----------- ----------- Basic weighted-average common shares outstanding 37,009,655 34,723,056 Effect of dilutive securities: Warrants 250,254 -- ----------- ----------- Diluted weighted-average common shares outstanding 37,259,909 34,723,056 ----------- ----------- Basic earnings per share $ 0.35 $ 0.25 ----------- ----------- Diluted earnings per share $ 0.34 $ 0.25 ----------- ----------- Credit Risk - The carrying amounts of accounts receivable included in the balance sheet represent the Company's exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk. The Company performs ongoing credit evaluations of each customer's financial condition. It maintains allowances for doubtful accounts and such allowances in the aggregate have not exceeded management's estimations. The Company has its cash in bank deposits primarily in the PRC. Historically, deposits in PRC banks have been secure due to the state policy on protecting depositors' interests. The PRC promulgated a new Bankruptcy Law in August 2006, which came into effect on 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. Recently Enacted Accounting Standards - In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company does not expect the adoption of SFAS No. 157 to have a material impact on our consolidated financial statements. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 159 to have a material impact on our consolidated financial statements. F-19 In June 2007, the Emerging Issues Task Force of the FASB issued EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities", (EITF 07-3) which is effective for fiscal years beginning after December 15, 2007. EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts will be recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is not expected to have a material impact on our results of operations or financial position. In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements, consolidated net income shall be adjusted to include the net income attributed to the non-controlling interest and consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the non-controlling interest. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has not yet determined the effect on our consolidated financial statements, if any, upon adoption of SFAS No. 141(R) or SFAS No. 160. In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities to require enhanced disclosures concerning the manner in which an entity uses derivatives (and the reasons it uses them), the manner in which derivatives and related hedged items are accounted for under SFAS No. 133 and interpretations thereof, and the effects that derivatives and related hedged items have on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements of fiscal years and interim periods beginning after November 15, 2008. The Company has not yet determined the effects on its consolidated financial statements, if any, that may result upon the adoption of SFAS 161. Restatement of Financial Statements - Subsequent to March 2008, the Company realized that the December 31, 2007 consolidated financial statements needed to be revised to correct an overstatement of advances paid to suppliers in the amount of $724,628, an overstatement of other receivables in the amount of $82,717, and an understatement of advance for purchase of intangible assets in the amount of $807,345. In addition, the December 31, 2006 consolidated financial statements needed to be revised to correct an overstatement of advances paid to suppliers and an understatement of advance for purchase of intangible assets in the amount of $1,509,434. The Company concluded that advances made for purchase of intangible assets should be treated as a long-term asset. This correction was not considered material in accordance with SAB 108 for the year ended December 31, 2007 and 2006 but is considered significant. As a result, the Company corrected the financial statements for December 31, 2007 and 2006. The correction of the December 31, 2007 and 2006 financial statements F-20 had no effect on the previously reported net income. The effects of the restatements were as follows: Reported Restatement As Restated ------------ ------------ ------------ Consolidated Balance Sheet as of December 31, 2007 Other receivables $ 496,313 $ (82,717) $ 413,596 Advances to suppliers 3,481,948 (724,628) 2,757,320 Total Current Assets 38,830,343 (807,345) 38,022,998 Advances for purchase of intangible assets -- 807,345 807,345 TOTAL ASSETS $ 43,706,320 $ -- $ 43,706,320 Consolidated Statement of Cash Flows For the year ended December 31, 2007 Other receivables $ (111,660) $ 79,426 $ (32,234) Advances to suppliers (1,028,199) 853,332 (174,867) Net Cash provided by Operating Activities 2,801,898 932,758 3,734,656 Advances for purchase of intangible assets -- (932,758) (932,758) Net Cash used in Investing Activities (1,479,531) (932,758) (2,412,289) Net Change in Cash $ 1,173,894 $ -- $ 1,173,894 Consolidated Balance Sheet as of December 31, 2006 Advances to suppliers $ 2,255,877 $ (1,509,434) $ 746,443 Total

Current Assets 25,707,128 (1,509,434) 24,197,694 Advances for purchase of intangible assets -- 1,509,434 1,509,434 TOTAL ASSETS $ 28,514,381 $ -- $ 28,514,381 NOTE 2 - INVENTORY Inventory consisted of the following: December 31, ---------------------------- 2007 2006 ----------- ----------- Raw materials $12,521,536 $ 8,458,210 Work in progress 60,404 1,679,952 Finished goods 1,866,831 139,725 ----------- ----------- Total Inventory $14,448,771 $10,277,887 ----------- ----------- NOTE 3 - PROPERTY AND EQUIPMENT Property and equipment consisted of the following at December 31, 2007 and 2006: F-21 December 31, ------------------------------- 2007 2006 ----------- ----------- Permit of land use $ 385,102 $ 360,304 Building 1,753,547 1,640,629 Plant, machinery and equipment 1,341,996 1,253,572 Motor vehicle 37,193 14,763 Office equipment 88,210 75,550 Construction in progress 22,970 -- ----------- ----------- Total 3,629,018 3,344,818 Less: accumulated depreciation (1,003,802) (619,645) ----------- ----------- Property and Equipment, net $ 2,625,216 $ 2,725,173 ----------- ----------- 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 5 For the years ended December 31, 2007 and 2006, depreciation expense was $327,921 and $353,831, respectively. NOTE 4 - INTANGIBLE ASSETS Intangible assets represent the costs on patents, trademarks, licenses, techniques and formulas. Intangible assets have a weighted-average remaining useful life of approximately 9.5 years. Amortization of intangible assets was $94,522 and $43,170 for the year ended December 31, 2007 and 2006, respectively. The estimated aggregate amortization expense for the next five years follows: Year Amount ---------------- ------------------- 2008 $ 221,538 2009 220,553 2010 218,722 2011 214,646 2012 214,646 Thereafter 973,147 ------------------- Total $ 2,063,252 ------------------- During the third quarter of 2007, the Company entered into agreements to acquire certain pharmaceutical formulas from an unrelated party for cash for an aggregate purchase price of $2,091,850. This has been recorded under the caption Intangible assets in the accompanying balance sheet as of December 31, 2007. NOTE 5 - DEBT Short Term Notes Payable - At December 31, 2006, the Company had loans outstanding totaling $2,174,608 from a bank. The loans bear interest with a F-22 range of 6.14% to 6.43%, principal and accrued interest was repaid in July and August of 2007. On July 13, 2007, the Company entered into a new line of credit with the bank collateralized by certain land use rights, machinery and equipment Advances made under the line of credit of $2,324,278 are due 7 months from the date of the loan and bear interest payable monthly at rates ranging from 6.90% to 7.37%. The line of credit expires on April 25, 2008 with any advances or renewals made prior to this date under the line having a maturity date no later than October 25, 2008. The Company has borrowed all amounts available under the line of credit. Short Term Notes Payable to Former Shareholders - In January 2006, the Company converted its dividend payable of $4,402,147 into short-term notes bearing interest at a rate of 2.25% per annum. The balance of the note at December 31, 2006 was $4,359,041. During the fourth quarter of 2007, the Company paid $3,989,891 of these notes and the final note outstanding as of December 31, 2007 of $369,150 was paid in January, 2008. NOTE 6 - INCOME TAXES The Company accounts for its income taxes in accordance with SFAS No. 109, which requires recognition of deferred tax assets and liabilities and their respective tax bases and any tax credit carry forwards available. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Undistributed earnings of the Company's foreign subsidiary since acquisition amounted to approximately $22 million at December 31, 2007. Those earnings, as well as the investment in the subsidiaries of approximately $17 million are considered to be indefinitely reinvested and, accordingly, no U.S. federal and 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 both U.S. income taxes (subject to 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. According to federal law in the PRC, enterprises with foreign investment and foreign enterprises doing business in the PRC are generally subject to federal enterprise income tax at a rate of 30%. However, because the Company is located in a special region, it has a 15% corporate income tax rate and has been granted a "tax holiday" during which it would pay no income taxes through December 31, 2007. On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law, (EIT Law), and on December 6, 2007, the State Council of China issued the Implementation Regulations for the EIT Law which took effect on January 1, 2008. The EIT Law and Implementation Regulations Rules impose a unified EIT of 25.0% on all domestic-invested enterprises and Foreign Invested Entities, or FIEs, unless they qualify under certain limited exceptions. As a result of the above change in the income tax laws, The Company will F-23 continue to have a favorable rate of 50% of the tax rates in effect during fiscal 2008 through 2010 as determined by the PRC government and the regional tax authorities. Following is a reconciliation of income taxes calculated at the federal statutory rates to actual income tax expense: December 31, ----------------------------- 2007 2006

----------- ----------- Tax at statutory rate of 33% $ 4,176,698 $ 2,919,609 Non-deductible expenses -- 27,559 Change in temporary differences -- (22,654) Effect of lower foreign tax rates (4,339,570) (2,924,514) ----------- ----------- Deferred income tax benefit $ (162,872) $ -- ----------- ----------- The temporary differences which give rise to the deferred income tax asset are as follows: December 31, ---------------------- 2007 2006 -------- -------- Allowance for doubtful trade receivables 183,586 16,446 Allowance for doubtful other receivables 3,923 290 -------- -------- Total deferred income tax assets 187,509 16,736 Valuation allowance -- -- -------- -------- Net deferred income tax asset $187,509 $ 16,736 ======== ======== The Company has also incurred various other taxes, comprised primarily of business taxes, value-added taxes, urban construction taxes, education surcharges and others. Any unpaid amounts are reflected on the balance sheets as accrued taxes payable. NOTE 7 - STOCKHOLDERS' EQUITY On February 1, 2007 the Company completed an offering of units priced at $1.70 per unit consisting of one share of Company common stock and a warrant to purchase one-half of a share of Company common stock at an exercise price of $2.38 per share. The Company received gross proceeds in the aggregate amount of $4,259,900. The net proceeds, after deduction of related offering expenses of $462,717 amounted to $3,797,183. The Company issued an aggregate of 2,505,882 shares of common stock and issued three-year warrants to purchase an aggregate of 1,252,941 shares of Company's common stock to 17 accredited investors. The proceeds were allocated to the warrants based upon their fair value or $2,010,219, and the balance of the proceeds was allocated to the shares of common stock. The fair value of the warrants, determined using the Black-Scholes Option Pricing Model, was calculated using the following assumptions: risk free interest rate of 4.80%, expected dividend yield of 0%, expected volatility of 124.39% and an expected life of 3 years. The common shares and the shares underlying the warrants have registration rights and, accordingly a registration statement was filed with the Securities Exchange Commission on March 30, 2007 within the 60 day period prescribed by the registration rights agreement. The registration statement was declared effective on May 4, 2007. F-24 In December 2007, the Company received proceeds of $119,000 upon the exercise of warrants to purchase 50,000 shares of common stock. The remaining 1,202,941 warrants issued in conjunction with the offering have not been exercised at December 31, 2007 and have a weighted average life of 2.1 years. NOTE 8 - TRANSFERS OF TECHNOLOGY During 2007, the Company entered into agreements to sell certain pharmaceutical formulas in the research and development stage in two separate transactions to third parties for an aggregate sales price of $1,509,741 which is recorded as other income, net of transfer (sales) tax of $75,487, which has been recorded as part of general and administrative expenses and $853,332 of cost in the accompanying statement of operations and comprehensive income for the year ended

December 31, 2007. NOTE 9 - 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. 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 10 - RELATED PARTY TRANSACTIONS On April 25, 2005 a dividend of $4,154,041 (adjusted for foreign currency translations as of the balance sheet dates) was declared to the former shareholders of Helpson which was not paid at December 31, 2005 and was subsequently converted to demand notes bearing interest at 2.25% according to the terms of the dividend. The Company paid these notes and the related accrued interest as discussed in Note 5. NOTE 11 - CONCENTRATIONS For the year ended December 31, 2007, three customers accounted for 21%, 20% and 12% of sales, respectively. For the year ended December 31, 2006, three customers accounted for 17%, 11% and 10% of sales, respectively. At December 31, 2007, two customers accounted for 20% and 11% of accounts receivable, respectively. At December 31, 2006, two customers made up 18% and 14% of accounts receivable. For the year ended December 31, 2007, purchases from three suppliers made up 17%, 17% and 11% of raw material purchases, respectively. For the year ended December 31, 2006 purchases from two suppliers accounted for 44% and 34% of raw material purchases, respectively. F-25 PART II: INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION. The following table sets forth an itemization of various expenses, all of which we will pay in connection with the sale and distribution of the securities being registered. All of the amounts shown are estimates, except the SEC registration fee. SEC Registration Fee $ 540.08 Accounting Fees and Expenses $ 15,000.00 Legal Fees and Expenses $ 30,000.00 Miscellaneous $ 2,600.00 Total $ 48,140.08 ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS. Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act. Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws provide for the indemnification of a present or former director or officer. Such indemnification shall include expenses, including attorney's fees actually and reasonably incurred by him. We may indemnify such individuals against all costs, expenses, and liabilities incurred in a threatened, pending, or completed action, suit, or proceeding brought because such individual is or was one of our directors or officers. We have been advised that in the opinion of the Securities and Exchange Commission indemnification for liabilities arising under the Securities Act is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities is asserted by one of our directors, officers, or controlling persons in connection with the securities being registered, we will, unless in the opinion of our legal counsel the matter has been settled by controlling precedent, submit the question of whether such indemnification is against public policy to a court of appropriate jurisdiction and will be governed by the final adjudication of such issue. At the present time, there is no pending litigation or proceeding involving a director, officer, employee or other agent of our ours in which indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding which may result in a claim for such indemnification. ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES. On May 11, 2005, we sold to Halter Financial Group, Inc. ("HFG") in a private placement 1,875,045 shares of restricted common stock at a purchase price of $0.1066641 per share, pursuant to the terms of a Stock Purchase Agreement (the II-26 "Purchase Agreement") executed by the parties on said date. As a result of the purchase, HFG became our controlling shareholder, owning approximately 75% of our issued and outstanding shares of common stock. This issuance was made in reliance on Section 4(2) of the Act and was made without general solicitation or advertising. The purchaser was a sophisticated investor with access to all relevant information necessary to evaluate the investment, and who represented to us that the shares were being acquired for investment. On October 19, 2005, we entered into a Securities Exchange Agreement with Onny and its original stockholders pursuant to which we acquired all of the issued and outstanding shares of Onny from said stockholders in exchange for 27,499,940 shares of our common stock. This issuance was made in reliance on Section 4(2) of the Act and was made without general solicitation or advertising. The acquirers were sophisticated investors with access to all relevant information necessary to evaluate the investment, and who represented to us that the shares were being acquired for investment. In February 2007, the Company completed an offering of units priced at $1.70 per unit consisting of one share of the Company's common stock and a warrant to purchase one-half of a share of the Company's common stock at an exercise price of $2.38 per share. The Company issued an aggregate of 2,505,882 shares of common stock and issued three-year warrants to purchase an aggregate of 1,252,941 shares of Company's common stock to 17 accredited investors. This issuance was made in reliance on Section 4(2) of the Act and was made without general solicitation or advertising. The acquirers were sophisticated investors with access to all relevant information necessary to evaluate the investment, and who represented to us that the shares were being acquired for investment. In May 2008, the Company completed an offering of units priced at $2.00 per unit consisting of one share of the Company's common stock and a warrant to purchase one-quarter of a share of the Company's common stock at an exercise price of $2.80 per share. The Company issued an aggregate of 5,000,000 shares of common stock and issued three-year warrants to purchase an aggregate of 1,250,000 shares of Company's common stock to 17 accredited investors. This issuance was made in reliance on Section 4(2) of the Act and was made without general solicitation or advertising. The acquirers were sophisticated investors with access to all relevant information necessary to evaluate the investment, and who represented to us that the shares were being acquired for investment. On June 24, 2008, the Company issued to FirsTrust Group, Inc. three-year warrants to purchase 75,000 shares of the Company's common stock at $2.80 per share and three-year warrants to purchase 75,000 shares of the Company's common stock at $3.60 per share. The Company issued the above warrants as equity compensation under the Consulting Agreement and the Supplementary Agreement entered into between the Company and FirsTrust China Ltd. (the wholly-owned subsidiary of FirsTrust Group, Inc.). The issuances were exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that act. On the same date, the Company issued to Hayden Communications International, Inc. three-year warrants to purchase 25,000 shares of the Company's common stock II-27 at $3.00 per share and three-year warrants to purchase 25,000 shares of the Company's common stock at $3.50 per share. The Company issued the above warrants as equity compensation under the Investor Relations Consulting Agreement entered into between the Company and Hayden Communications International, Inc. The issuances were exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that act. ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES The following Exhibits are attached hereto or incorporated herein by reference.

Exhibit No. Description

2.1 Securities Exchange Agreement between China Pharma and Onny Investment Limited dated October 19, 2005 (3)

3.1 Amendment of Certificate of Incorporation (8)

3.2 Amended and Restated Bylaws of China Pharma (9)

4.1 Form of Warrant issued to FirsTrust Group, Inc. (10)

4.2 Form of Warrant issued to Hayden Communications International, Inc.(10)

5.1* Opinion of King and Wood LLP

10.1 Stock Purchase Agreement between Halter Financial Group Inc. and the Registrant dated May 11, 2005 (1)

10.2 Subscription Agreement between Onny Investment Limited and the subscribers (3)

10.3 Employment Contract between Helpson and Zhilin Li dated July 1, 2005 (5)

10.4 Employment Contract between Helpson and Xinhua Wu dated July 1, 2005 (5)

10.5 Employment Contract between Helpson and Jian Yang dated July 1, 2005 (5)

10.6 Securities Purchase Agreement between the Registrant and 17 investors in the 2008 Private Placement (6)

10.7 Registration Rights Agreement between the Registrant and 17 investors in the 2008 Private Placement (6)

10.8 Form of Warrant issued to the 17 investors in the 2008 Private Placement (6)

10.9 Supply Contract entered into between Hainan Helpson Medicine and Bio-Technology Co. Ltd. and Sichuan Chengxin Pharmaceutical Company (7)

10.10 Supply Contract entered into between Hainan Helpson Medicine and Bio-Technology Co. Ltd. and Anhui Fuyang Xinte Pharmaceutical Company (7)

10.11 Sales Contract entered into between Hainan Helpson Medicine and Bio-Technology Co. Ltd. and Anhui Fuyang Xinte Pharmaceutical Company (7)

10.12 Sales Contract entered into between Hainan Helpson Medicine and Bio-Technology Co. Ltd. and Hainan Xinglin Medicine Company (7)

14.1* Code of Business Conduct and Ethics

16.1 Letter regarding Change in certifying Accountant dated

August 15. (2)

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21 Subsidiaries of China Pharma Holdings, Inc. filed on October 20, 2005 (4)

23.1* Consent of King and Wood LLP (Included in Exhibit 5.1)

23.2* Consent of Hansen, Barnett & Maxwell, P.C.

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* Filed herewithin (1) Previously filed as an exhibit to our report on Form 8-K (Commission File Number: 000-29523) filed with the Commission on May 11, 2005. (2) Previously filed as an exhibit to our report on Form 8-K (Commission File Number: 000-29523) filed with the Commission on August 18, 2005. (3) Previously filed as an exhibit to our report on Form SB-2 (Commission File Number: 333-129161) filed with the Commission on October 20, 2005. (4) Previously filed as an exhibit to our report on Form SB-2 (Commission File Number: 333-129161) filed with the Commission on December 23, 2005. (5) Previously filed as an exhibit to our report on Form 10-QSB (Commission File Number: 000-29523) filed with the Commission on November 16, 2006. (6) Previously filed as an exhibit to our report on Form 8-K (Commission File Number: 000-29523) filed with the Commission on May 28, 2008. (7) Previously filed as an exhibit to our report on Form 10-KSB (Commission File Number: 000-29523) filed with the Commission on March 31, 2008. (8) Previously filed as an exhibit to our report on Form 8-K (Commission File Number: 000-29523) filed with the Commission on May 4, 2006. (9) Previously filed as an exhibit to our report on Form PRE 14C (Commission File Number: 000-29523) filed with the Commission on June 27, 2008. (10) Previously filed as an exhibit to our report on Form 8-K (Commission File Number: 000-29523) filed with the Commission on June 27, 2008. ITEM 17. UNDERTAKINGS The undersigned registrant hereby undertakes: (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to: (i) Include any prospectus required by section 10(a)(3) of the Securities Act; (ii) Reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price

set forth in the "Calculation of Registration Fee" II-29 table in the effective registration statement. (iii) Include any material or changed information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; Provided, however, that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement. (2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. (4) Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use. (5) That, for the purpose of determining liability under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser: (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 of Regulation C of the Securities Act; (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant; (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser. II-30 Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. II-31 SIGNATURES Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Haikou, on July 10, 2008. China Pharma Holdings, Inc. By: /s/ Zhilin Li ------------------------------- Zhilin Li Chief Executive Officer, President and Director By: /s/ Xinhua Wu ------------------------------- Xinhua Wu Chief Financial Officer and Director Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated. SIGNATURE TITLE DATE /s/ Zhilin Li ------------- Zhilin Li President , Chief Executive July 10, 2008 Officer and Director /s/ Xinhua Wu ------------- Xinhua Wu Chief Financial Officer and Director July 10, 2008 /s/ Gene Michael Bennett ----------------------- Gene Michael Bennett Director July 10, 2008 /s/ Yingwen Zhang ----------------- Yingwen Zhang Director July 10, 2008 /s/ Baowen Dong --------------- Baowen Dong Director July 10, 2008