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DRAGON PHARMACEUTICAL INC
Form 8-K
September 28, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 12, 2005

DRAGON PHARMACEUTICAL INC.
(Exact name of registrant as specified in its charter)

| | | |
|---|--|---|
| Florida ----- (State or Other Jurisdiction of Incorporation) | 0-27937 ----- (Commission File Number) | 65-0142474 ----- (IRS Employer Identification No.) |
|---|--|---|

| | |
|--|--------------------------------|
| 1055 Hastings Street, Suite 1900 Vancouver, British Columbia ----- (Address of Principal Executive Offices) | V6E 2E9 ----- (Zip Code) |
|--|--------------------------------|

(604) 669-8817

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2 - Financial Information

Item 2.01 Completion of Acquisition or Disposition of Assets

Dragon Pharmaceutical Inc. is filing the financial statements of Oriental

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Wave Holding Limited for the year ended December 31, 2004, and pro-forma financial statements related thereto, in connection with the completion of the acquisition of Oriental Wave Holding Limited on January 12, 2005.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

- a. Financial Statements for the year ended December 31, 2004 for Oriental Wave Holding Limited and Subsidiary.
- b. Pro-forma financial information for Dragon Pharmaceutical Inc. and Oriental Wave Holding Limited.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DRAGON PHARMACEUTICAL INC.,
a Florida Corporation

Dated: September 27, 2005

/s/ Maggie Deng

Maggie Deng
Chief Operating Officer

ORIENTAL WAVE HOLDING LIMITED
AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2004 (RESTATED) AND 2003

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PAGE 5 CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
DECEMBER 31, 2004 (RESTATED) AND 2003

PAGES 6 - 19 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (RESTATED)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of:
Oriental Wave Holding Limited and Subsidiary

We have audited the accompanying consolidated balance sheets of Oriental Wave Holding Limited and subsidiary as of December 31, 2004 and 2003, and the related statements of operations and comprehensive income, changes in 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Oriental Wave Holding Limited and subsidiary as of December 31, 2004 and 2003 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 2, the Company restated its consolidated financial statements for the year ended December 31, 2004.

WEBB & COMPANY, P.A.

Boynton Beach, Florida
March 14, 2005, except for Note 2, to
which the date is September 16, 2005

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 AND 2003

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| | ASSETS ----- | |
|--|-----------------|-------|
| | Note | |
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash and cash equivalents | | \$ |
| Accounts receivable, net of allowances | 3 | |
| Inventories, net | 4 | |
| Value added tax receivable | | |
| Prepaid expenses | | |
| Total Current Assets | | ----- |
| PROPERTY AND EQUIPMENT, NET | 5 | ----- |
| OTHER ASSETS | | |
| Intangible assets, net | 7 | |
| Other receivables | | |
| Deposits | | |
| Investments -cost | | |
| Total Other Assets | | ----- |
| TOTAL ASSETS | | \$ |
| ----- | | ===== |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | | \$ |
| Accrued retirement benefits | 8 | |
| Other payables and accrued liabilities | 9 | |
| Notes payable - short-term | 10 | |
| Due to related companies | 12 | |
| Total Current Liabilities | | ----- |
| LONG-TERM LIABILITIES | | |
| Long term accounts payable | 11 | |
| Long term retirement benefits | 8 | |
| Notes payable - long-term | 10 | |
| Due to related companies | 12 | |
| Total Long-Term Liabilities | | ----- |
| TOTAL LIABILITIES | | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| \$1.00 par value, 50,000 shares authorized, 50,000 shares issued and outstanding | | |

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Additional paid-in capital
 Retained earnings
 Unappropriated
 Appropriated
 Due from stockholder

Total Stockholders' Equity

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$

 =====

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

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF OPERATIONS
 AND COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | Note | RESTATE |
|-------------------------------------|-------|---------|
| | ----- | ----- |
| NET SALES | 13 | \$ |
| COST OF SALES | | |
| GROSS PROFIT | | |
| OPERATING EXPENSES | | |
| Selling expense | | |
| General and administrative expenses | | |
| Depreciation | | |
| Amortization of land use rights | | |
| Total Operating Expenses | | |
| INCOME FROM OPERATIONS | | |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | | |
| Other income | | |
| Other expense | | |
| Total Other Income (expense) | | |
| INCOME FROM OPERATIONS BEFORE TAXES | | |
| INCOME TAX EXPENSE | 1 (M) | |
| NET INCOME | | |

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OTHER COMPREHENSIVE INCOME

Foreign currency translation loss

COMPREHENSIVE INCOME

Net income per share - basic and diluted

Weighted average number of shares outstanding during the period -
basic and diluted

\$

\$

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

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | Common Shares | Stock Amount | Additional Paid-In Capital | RESTATED NOTE 2) Unappropriated Retained Earnings | RESTATED (NOTE 2) Appropriated Retained Earnings |
|---|------------------|-----------------|----------------------------------|---|--|
| Balance, December 31, 2002 | 50,000 | \$ 50,000 | \$1,157,730 | \$ (242,324) | \$ - |
| Capital contribution from stockholders | - | - | 6,678,135 | - | - |
| Notes receivable - stockholders | - | - | - | - | - |
| Net income for the year ended December 31, 2003 | - | - | - | 7,583,972 | - |
| Transfer to retained earnings for appropriated statutory and staff welfare reserves | - | - | - | (1,286,784) | 1,286,784 |
| Balance, December 31, 2003 | 50,000 | 50,000 | 7,835,865 | 6,054,864 | 1,286,784 |
| Registered capital appropriation | - | - | 6,141,639 | (6,141,639) | - |
| Notes receivable - stockholders | - | - | - | - | - |
| Net income for the year ended December 31, 2004 | - | - | - | 6,362,423 | - |
| Transfer to retained earnings for appropriated statutory and staff welfare reserves | - | - | - | (6,275,648) | 6,275,648 |
| BALANCE, DECEMBER 31, 2004 | 50,000 | \$ 50,000 | \$13,977,504 | \$ - | \$7,562,432 |

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

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income

Adjustments to reconcile net income to cash provided by operating activities:

Depreciation and amortization

Allowance for doubtful accounts

Provision for excess and obsolete inventories

Changes in operating assets and liabilities:

(Increase) decrease in:

Accounts receivable

Inventories

Value added tax receivable

Prepaid expenses

Other assets

Deposits

Increase (decrease) in:

Accounts payable

Other payables and accrued liabilities

Due to related companies

Net Cash Provided By Operating Activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment

Purchase of investments

Net Cash Used In Investing Activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of common stock

Proceeds from notes payable

Due from stockholder

Net Cash Provided By Financing Activities

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS AT END OF YEAR

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest expense

Cash paid during the year for income taxes

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During 2004, the Company's subsidiary appropriated \$6,141,639 from retained earnings to registered capital and reduced the Land Use Rights by \$1,135,238 to reflect the extinguishment of Accrued Retirement Benefits (Note 6).

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

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

(A) Organization and Basis of Presentation

Oriental Wave Holding Limited ("Oriental Wave") was incorporated in the British Virgin Islands on January 7, 2003. Shanxi Weiqida Pharmaceutical Company Limited ("Shanxi Weiqida"), a People's Republic of China limited liability company was incorporated on January 22, 2002. Shanxi Weiqida is principally engaged in research and development, manufacturing, and selling of pharmaceutical products in the People's Republic of China ("PRC").

During 2003, Shanxi Weiqida's shareholders exchanged 100% of their ownership of Shanxi Weiqida for 50,000 shares of Oriental Wave under a reorganization plan. The transfer has been accounted for as a reorganization of entities under common control as the companies were beneficially owned by identical shareholders and share common management. The financial statements have been prepared as if the reorganization had occurred retroactively. Oriental Wave and Shanxi Weiqida are hereafter referred to as (the "Company").

The accompanying 2004 and 2003 consolidated financial statements include the accounts of Oriental Wave and its 100% owned subsidiary Shanxi Weiqida. All significant intercompany balances and transactions have been eliminated in consolidation.

(B) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

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(C) Cash Equivalents

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

(D) Accounts Receivable

The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and recorded based on management's assessment of the credit history with the customer and current relationships with them.

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(E) Investments

During the twelve months ended December 31, 2004, the Company made a strategic investment in a private company of \$12,077. The investment represents less than 1% of the total equity outstanding of the private company outstanding as of December 31, 2004. The private company investment is carried at cost and written down to fair market value when indications exist that this investment has other than temporarily declined in value. As of December 31, 2004, no impairment in the value of the investment has been recorded.

(F) Inventories

Inventories are stated at the lower of cost or market value, cost being determined on a first-in, first-out method. The Company provides inventory allowances based on excess and obsolete inventories determined principally by customer demand and product expiration dates.

(G) Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is provided on a straight-line basis, less estimated residual value over the assets estimated useful lives. The estimated useful lives are as follows:

| | |
|-----------------------------------|----------|
| Buildings | 50 Years |
| Plant and machinery | 10 Years |
| Motor vehicles | 8 Years |
| Furniture, fixtures and equipment | 5 Years |

Land use rights are stated at cost, less accumulated amortization, and are further reduced by the amount of the Accrued Retirement Benefit obligation extinguished through the Company's rehiring of employees (Note6). The land use rights are amortized over the term of the relevant rights of 50 years from date of acquisition.

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(H) Fair Value of Financial Instruments

Depreciable assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on projected undiscounted cash flows associated with the assets. A loss is recognized for the difference between the fair value and the carrying amount of the assets. Fair value is determined based upon market quote, if available, or is based on valuation techniques.

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

The carrying amount of the Company's cash, receivables and payables and short-term bank loan approximates their fair value due to the short maturity of those instruments.

(I) Intangible Assets

Under the Statement of Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", all goodwill and certain intangible assets determined to have indefinite lives will not be amortized but will be tested for impairment at least annually. Intangible assets other than goodwill will be amortized over their useful lives of 10 years and reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets".

(J) Revenue Recognition

The Company recognizes revenue from the sale of pharmaceutical products at the time when title to the products transfers, the amount is fixed and determinable, evidence of an agreement exists, and the customer bears the risk of loss, net of estimated provisions for returns, rebates and sales allowances.

(K) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$63,692 and \$26,145 for the years ended December 31, 2004 and 2003, respectively.

(L) Research and Development

Research and development costs related to both present and future products are expensed as incurred. Total expenditures on research and development charged to selling, general and administrative expenses for the years ended December 31, 2004 and 2003 were \$193,188 and \$19,555, respectively.

(M) Income Taxes

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("Statement 109"). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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. Under Statement 109, the effect on

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deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

is organized in the British Virgin Islands and the People's Republic of China and no tax benefit is expected from the tax credits in the future. The Company located its factories in a special economic region in China. This economic region allows foreign enterprises a two-year income tax exemption from central government tax beginning in the first year after they become profitable and a 50% income tax reduction for the following three years. The Company was approved as a wholly owned foreign enterprise in October 2002. Pursuant to a new regulation, "No. 142 enacted during 2004 by the Shanxi Province National Taxation Administration", foreign investment enterprises established after January 31, 2002 will not be exempted from the Provincial income tax, which is 3% of the taxable income (derived under Chinese GAAP). The Company will continue to be exempt from central government tax as a foreign enterprise. The Company was established as a wholly foreign owned enterprise on September 30, 2002. The income tax expense for the years ended December 31, 2004 and 2003 was \$451,823 and \$0, respectively.

(N) Foreign Currency Translation

The functional currency of the Company is the Chinese Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into United States dollars using period end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transaction occurred. Net gains and losses resulting from foreign exchange translations are included in the statements of operations and stockholder's equity as other comprehensive gain (loss).

(O) Comprehensive Income

The foreign currency translation gain or loss resulting from translation of the financial statements expressed in RMB to United States Dollar is reported as other comprehensive income in the statements of operations and stockholders' equity.

(P) Segments

The Company operates in two reportable segments, Chemical Division and Pharma Division.

(Q) Reclassifications

Certain 2003 balances have been reclassified to conform with the 2004 presentation.

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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(R) Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4 SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67," SFAS No. 153, "Exchanges of Non-monetary Assets - an amendment of APB Opinion No. 29," and SFAS No. 123 (revised 2004), "Share-Based Payment," were recently issued. SFAS No. 151, 152, 153 and 123 (revised 2004) have no current applicability to the Company and have no effect on the financial statements.

NOTE 2 RESTATEMENT

The Company had originally determined under SFAS 141 that it had identified and measured the fair value of the assets acquired and the liabilities assumed in the acquisition of the Land Use Rights. During September 2005, the Company has determined that \$1,135,238 of the extinguishment of Accrued Retirement Benefit should have been accounted for as a reduction of the Land Use Rights acquired rather than as a gain as previously recorded. As a result of the change in asset value, the Company has reduced depreciation expense by \$11,352. The Company has restated the financial statements to account for this non-cash adjustment in accordance with SFAS 141 and changed its policy to record the extinguishment of Accrued Retirement Benefits as a reduction of the carrying value of the Land Use Rights.

This reduction in Land Use Rights will also result in a reduction of the depreciation expense in subsequent periods. The restatement did not have an effect on the cash flow or liabilities of the Company. The changes to the financial statements are as follows:

| | As of December 31, 2004 | |
|-------------------------------------|-------------------------|-------------|
| | Previously Reported | Adjustment |
| Current assets | 25,283,300 | |
| Property and equipment | 63,520,202 | (1,123,886) |
| Other assets | 2,658,688 | |
| Total assets | 91,462,190 | |
| Liabilities | 68,800,517 | |
| Share capital | 14,027,504 | |
| Retained earnings | 8,686,318 | (1,123,886) |
| Due from shareholder | (52,149) | |
| Total equity | 22,661,673 | |
| Total liabilities and equity | 91,462,190 | |

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | Year ended December 31, 2004 | |
|-------------------------|------------------------------|-------------|
| | Previously Reported | Adjustment |
| Net Sales | \$29,023,130 | |
| Cost of sales | 16,140,305 | |
| | | |
| Gross profit | 12,882,825 | |
| Operating expenses | 5,867,948 | (11,352) |
| | | |
| Income from operations | 7,014,877 | |
| Other income (expenses) | 923,255 | (1,135,238) |
| | | |
| Income before taxes | 7,938,132 | |
| Income tax expense | 451,823 | |
| | | |
| Net income | \$ 7,486,309 | |
| | | |
| Net income per share | \$ 149.73 | |
| | | |

ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2004 and 2003 consisted of the following:

| | 2004 | 2003 |
|---------------------------------------|--------------|--------------|
| Trade and other receivables | \$ 6,799,872 | \$ 4,267,353 |
| Less: allowance for doubtful accounts | 124,574 | - |
| | | |
| Accounts receivable, net | \$ 6,675,298 | \$ 4,267,353 |
| | | |

For the years ended December 31, 2004 and 2003, the Company recorded an allowance for doubtful accounts of \$124,574 and nil, respectively.

NOTE 4 INVENTORIES

Inventories at December 31, 2004 and 2003 consisted of the following:

| | 2004 | 2003 |
|------------------|--------------|--------------|
| Raw materials | \$ 4,287,604 | \$ 2,729,091 |
| Work-in-progress | 10,994,088 | 1,423,182 |
| Finished goods | 2,302,073 | 3,682,293 |

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| | | |
|---|---------------|--------------|
| | ----- | ----- |
| | 17,583,765 | 7,834,566 |
| Less: provision for obsolescence and impairment | 959,859 | 46,481 |
| | ----- | ----- |
| | \$ 16,623,906 | \$ 7,488,085 |
| | ===== | ===== |

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

For the years ended December 31, 2004 and 2003, the Company recorded a provision for obsolete inventories of \$613,378 and \$346,481, respectively.

NOTE 5 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2004 and 2003:

| | RESTATED (NOTE 2) 2004 | 2003 |
|--------------------------------|------------------------------|---------------|
| | ----- | ----- |
| Plant and machinery | \$ 41,154,014 | \$ 22,997,197 |
| Land and Buildings | 18,552,438 | 5,161,270 |
| Motor vehicles | 611,261 | 355,616 |
| Furniture and office equipment | 2,499,188 | 729,165 |
| Construction in progress | 2,691,179 | 9,252,141 |
| | ----- | ----- |
| | 65,508,080 | 38,495,389 |
| Less: accumulated depreciation | 3,111,764 | 498,783 |
| | ----- | ----- |
| Property and equipment, net | \$ 62,396,316 | \$ 37,996,606 |
| | ===== | ===== |

Depreciation expense for the years ended December 31, 2004 and 2003 was \$2,612,981 and \$479,659 respectively.

NOTE 6 ACQUISITIONS

During July 2003, the Company acquired land use rights and buildings from a government liquidator in exchange for assuming certain future employment, healthcare and land acquisition costs of the factory and its former employees. The agreement requires the Company to pay certain minimum wages and health care costs until the date of their employment, retirement or death, whichever occurs first. The total amount of the liabilities assumed on the closing date was \$8,897,685. The Company has calculated the related asset value by computing the net present value of the future expected payments to the remaining employees assuming an interest rate of 3% and has recorded the land at a net present value of \$3,332,907 (See Notes 8 and 14). As of December 31, 2004, the Company had employed 651 former employees and 207 former employees have retired. Subsequent to the acquisition the Company rehired a number of the former employees, reducing the expected future payments required. The Company has accounted for the reduction of the obligation by reducing the amount of Land Use Rights recorded.

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

The cost of Land Use Rights is as follows:

| | RESTATED (NOTE 2) 2004 | 2003 |
|---|------------------------------|--------------|
| | | |
| Original cost recorded | \$ 3,332,907 | \$ 3,332,907 |
| Less: reduction of accrued retirement benefit | 1,135,238 | - |
| | | |
| Cost of Land Use Rights | \$ 2,197,669 | \$ 3,332,907 |

The Company intends to reduce the Land Use Rights should the future payments be further reduced due to additional former employees being rehired.

NOTE 7 INTANGIBLE ASSETS

During May 2002, the Company acquired licenses from a company related to a director.

Intangible assets consist of the following as of December 31, 2004 and 2003:

| | 2004 | 2003 |
|--------------------------------|------------|------------|
| | | |
| Licenses | \$ 603,865 | \$ 603,865 |
| Less: accumulated amortization | 171,096 | 110,710 |
| | | |
| | \$ 432,769 | \$ 493,155 |

Amortization expense for the years ended December 31, 2004 and 2003 was \$60,386, and \$60,387, respectively.

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 8 ACCRUED RETIREMENT BENEFITS

During July 2003, the Company acquired land use rights and buildings from a government liquidator. The present value of accrued expected land costs is recorded at December 31, 2004 and 2003 as follows:

| | 2004 | |
|--|--------------|----|
| | | |
| Total liabilities assumed at closing date | \$ 8,897,685 | \$ |
| Less: net present value of liabilities not expected to be paid | 5,564,778 | |
| | | |
| Present value of expected liabilities | 3,332,907 | |
| Less: amounts paid and liabilities not expected | | |

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| | | |
|-----------------------|------------|----------|
| to be paid | 2,348,154 | ----- |
| | 984,753 | ----- |
| Less: current portion | 114,432 | ----- |
| | \$ 870,321 | \$ ----- |
| | ===== | ===== |

Under the terms of the contract with the liquidator, the Company will remain contingently liable for these liabilities until the date of retirement or re-employment for each employee (See Notes 6 and 14).

NOTE 9 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities at December 31, 2004 and 2003 consist of the following:

| | 2004 | 2003 |
|----------------------------------|---------------|---------------|
| | ----- | ----- |
| Machinery and equipment payable | \$ 7,050,243 | \$ 8,510,372 |
| Accrued expenses | 6,360,198 | 2,905,155 |
| Value added tax payables | - | 187,083 |
| Income taxes payable | 166,495 | - |
| Other taxes payable | 121,054 | 1,429 |
| Deposits received from customers | 4,007,173 | 1,691,652 |
| | ----- | ----- |
| | \$ 17,705,163 | \$ 13,295,691 |
| | ===== | ===== |

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 10 NOTES PAYABLE

Balance at December 31, 2004 and 2003:

| | 2004 |
|---|------------|
| | ----- |
| Note payable to a bank, interest rate of 6.372% per annum, guaranteed by a third party, due June 2005 | \$ 420,290 |
| Note payable to a bank, interest rate of 6.372% per annum, guaranteed by a third party, due June 2005 | 386,473 |
| Note payable to a bank, interest rate of 6.138% per annum, guaranteed by a third party, due June 2005 | 3,623,188 |
| Note payable to a bank, interest rate of 6.039% per annum, secured by leasehold land and fixed assets, due April 2005 | 8,454,106 |
| Note payable to a bank, interest rate of 5.76% per annum, guaranteed by a third party, due November 2006 | 6,316,426 |

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| | |
|-------------------------|--------------|
| | ----- |
| | 19,200,483 |
| Less current maturities | 12,884,057 |
| | ----- |
| | \$ 6,316,426 |
| | ===== |

Maturities are as follows:

For the Year Ending December 31,
2005
2006

NOTE 11 LONG TERM ACCOUNTS PAYABLE

Long term accounts payable balance at December 31, 2004 is the final payment of construction contracts which had been finished through December 31, 2004. According to the contract terms, the final payments on the contracts will be settled as follows:

| | |
|---------------------------|---------------|
| Settlement Arrangement | |
| Accounts payable due 2006 | \$ 21,873,147 |
| | ===== |

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 12 DUE TO RELATED PARTIES

Accounts payable - related party balances at December 31, 2004 and 2003:

| | |
|--|--------------|
| | 2004 |
| | ----- |
| Due to a company owned by a stockholder and director due March 2006 | \$ 1,328,502 |
| Due to a company owned by a stockholder and director | - |
| Due to a company owned by a stockholder and director | 4,660,984 |
| | ----- |
| | 5,989,486 |
| Less: current maturities | 4,660,984 |
| | ----- |
| | \$ 1,328,502 |
| | ===== |

NOTE 13 SEGMENTS

The Company operates in two reportable segments, Pharma Division and Chemical Division. The accounting policies of the segments are the same as described in the summary of significant accounting policies. The Company evaluates segment performance based on income from operations. All intercompany transactions between segments have been eliminated. As a

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result, the components of operating income for one segment may not be comparable to another segment. The following is a summary of the Company's segment information for the years ended December 31, 2004 and 2003.

| | Chemical Division | Pharma Division |
|--|----------------------|--------------------|
| | ----- | ----- |
| 2004 | | |
| Sales | \$ 4,248,906 | 24,774,224 |
| Gross profit | 216,380 | 12,666,445 |
| Total assets (RESTATED-NOTE 2) | 66,726,390 | 23,611,914 |
| Additions to long-lived assets | 27,295,156 | 852,773 |
| Intangible assets | - | 432,769 |
| Depreciation and amortization (RESTATED-NOTE 2) | 2,033,933 | 639,434 |

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

| | | | |
|--------------------------------|----|------------|---------------|
| 2003 | | | |
| Sales | \$ | - | \$ 26,086,092 |
| Gross profit | | - | 12,032,671 |
| Total assets | | 29,553,673 | 23,572,839 |
| Additions to long-lived assets | | 29,553,673 | 3,155,454 |
| Intangible assets | | - | 493,155 |
| Depreciation and amortization | | - | 540,046 |

NOTE 14 COMMITMENTS AND CONTINGENCIES

(A) Employee Benefits

The full time employees of the Company are entitled to employee benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a Chinese government mandated multi-employer defined contribution plan. The Company is required to accrue for those benefits based on certain percentages of the employees' salaries. The total provision for such employee benefits was \$642,856 and \$294,136 for the years ended December 31, 2004 and 2003, respectively. The Company is required to make contributions to the plans out of the amounts accrued for medical and pension benefits. The Chinese government is responsible for the medical benefits and the pension liability to be paid to these employees.

(B) Loan Guarantee

The Company has issued a guarantee to a bank as security for a loan to a third party vendor. The total loan guarantee as of December 31, 2004 was \$2,596,618.

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The Company has also issued a guarantee to a bank as security for a loan to a third party vendor. The total loan guarantee as of December 31, 2004 was \$6,036,647. The vendor pledged its assets totaling \$8,484,101 to the Company for this guarantee.

(C) Capital Commitments

According to the Articles of Association of Shanxi Weiqida, Oriental Wave has to fulfill registered capital of \$19,205,116 (RMB 159,018,360) within five years from December 16, 2003. As of December 31, 2004, the Company has fulfilled \$13,977,504 (RMB 115,733,733) of registered capital requirement and has registered capital commitments of \$5,227,612 (See Notes 15(A) and 18 (A) & (B)).

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(D) Contingent Employment Benefits

During July 2003, the Company acquired land and buildings from a government liquidator in exchange for assuming certain future employment, healthcare and land acquisition costs of the factory and its former employees. Under the terms of the contract with the liquidator, the Company will remain contingently liable for these liabilities until the date of retirement, re-employment or death for each employee. As of December 31, 2004, the Company has rehired 651 former employees and 207 employees have retired. If the Company is unable to provide continued employment to these individuals, it will be liable to pay each former employee approximately \$49 per month until his or her date of retirement or death, whichever comes first (See Notes 6 & 8).

NOTE 15 STOCKHOLDERS' EQUITY

(A) Capital Contribution

On January 5, 2004, Shanxi Weiqida declared a one-time dividend of \$6,141,639 to be used to satisfy its registered capital requirement (See Note 14(C)).

(B) Appropriated Retained Earnings

Shanxi Weiqida is required to make appropriations to reserves funds, comprising the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the People's Republic of China (the "PRC GAAP"). Appropriation to the statutory surplus reserve should be at least 10% of the after tax net income determined in accordance with the PRC GAAP until the reserve is equal to 50% of the entities' registered capital. Appropriations to the statutory public welfare fund are at 5% to 10% of the after tax net income determined in accordance with the PRC GAAP. The statutory public welfare fund is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

The Company appropriated \$6,275,648 to the reserves funds based on its net income under PRC GAAP.

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NOTE 16 RELATED PARTY TRANSACTIONS

See Notes 7 and 12.

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ORIENTAL WAVE HOLDING LIMITED AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

NOTE 17 CONCENTRATIONS AND RISKS

During the years ended December 31, 2004 and 2003, 95% and 100%, respectively, of the Company's revenues were derived from companies located in China and 100% its assets are located in China.

NOTE 18 SUBSEQUENT EVENTS

(A) Acquisition

On June 11, 2004, the Company entered into a share purchase agreement with a pharmaceutical company. The transaction will result in the shareholders of the Company owning the majority of the issued and outstanding shares of the new combined entity. The transaction will be accounted for as a purchase by the Company. On January 12, 2005, the Company completed the acquisition with Dragon Pharmaceutical, Inc. The Company's stockholders received 44,502,004 shares or 68.35 % of the outstanding shares of common stock.

Concurrent with the acquisition agreement, the principal stockholder of the Company agreed to convert approximately \$2,415,500 of loans payable to a related entity into equity of the Company.

(B) Contribution of Capital

On January 31, 2005 Oriental Wave paid Shanxi Weiqida \$479,988 towards its registered capital requirement under Chinese law.

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PRO-FORMA FINANCIAL INFORMATION

1

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES PRO-FORMA CONSOLIDATED BALANCE SHEET As of December 31, 2004 (Expressed in US Dollars)

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| | ORIENTAL WAVE | DRAGON | PRO ADJU |
|---|------------------|--------------|-------------|
| ASSETS | | | |
| Current | | | |
| Cash and short term securities | \$ 910,425 | \$2,161,781 | |
| Accounts and other receivable | 6,837,741 | 1,382,019 | |
| Inventories | 16,623,906 | 585,565 | |
| Due from director | | 100 | |
| Prepaid and deposits | 911,228 | 401,727 | (a) |
| Total Current Assets | 25,283,300 | 4,531,192 | |
| Fixed Assets | 62,396,316 | 873,036 | |
| Other Tangible Assets | 2,225,919 | | |
| Other Assets | | | |
| Patent rights and Hep B Vaccine Intangible and other assets, net | 432,769 | 2,372,207 | |
| Total Other Assets | 432,769 | 2,372,207 | |
| Total Assets | \$90,338,304 | \$7,776,435 | |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DIFFICIENCY) | | | |
| Current Liabilities | | | |
| Accounts payables and accrued liabilities | \$ 20,867,080 | \$ 1,548,144 | |
| Notes payable - short-term | 12,884,058 | | |
| Due to related companies | 4,660,984 | | (b) |
| Total Current Liabilities | 38,412,122 | 1,548,144 | |
| Long-term Liabilities | | | |
| Long-term account payable | 22,743,468 | | |
| Notes payable - long-term | 6,316,425 | | |
| Due to related companies | 1,328,502 | | |
| Total Liabilities | 68,800,517 | 1,548,144 | |
| Minority Interest | | | |
| Stockholders' Equity (Deficiency) | | | |
| Share Capital | 50,000 | 18,376 | (a) |
| Additional paid in capital | 13,977,504 | 24,176,970 | (a) |
| | | | (b) |
| Due from a stockholder | (52,149) | | |
| Accumulated other comprehensive (loss) | | (34,807) | (a) |
| Retained earnings (deficit) | 7,562,432 | (17,932,248) | (a) |
| Total stockholders' equity | 21,537,787 | 6,228,291 | |
| Total liabilities and equity | \$90,338,304 | \$7,776,435 | |

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2

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
 PRO-FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 For the Year Ended December 31, 2004
 (Expressed in US Dollars)

| | ORIENTAL | |
|--|---------------|-------------|
| | WAVE | DRAGON |
| | ----- | ----- |
| Sales | \$ 29,023,130 | \$3,705,261 |
| Cost of Sales | 16,140,305 | 1,546,028 |
| | ----- | ----- |
| Gross Profit | 12,882,825 | 2,159,233 |
| Operating Expenses | | |
| Selling, general and administrative expenses | 5,578,147 | 3,354,522 |
| Depreciation and amortization of fixed assets | 278,449 | 706,941 |
| | ----- | ----- |
| Total operating expenses | 5,856,596 | 4,061,463 |
| | ----- | ----- |
| | 7,026,229 | (1,902,230) |
| Net write off of land-use right and fixed assets | | (937,777) |
| New market and EPO development expenses | | (246,080) |
| Provision for doubtful debts | | |
| Loan interest expense | (216,634) | (4,223) |
| | ----- | ----- |
| Income (Loss) from Operations | 6,809,595 | (3,090,310) |
| Other Income (Expenses) | | |
| Interest Income (expense) | | 41,106 |
| Other income | 61,881 | 2,106,486 |
| Other expense | (57,230) | |
| | ----- | ----- |
| Income (Loss) before income taxes and minority interest | 6,814,246 | (942,718) |
| Minority interest | | |
| Income Tax Expense | (451,823) | - |
| | ----- | ----- |
| Net Income (Loss) for the year | 6,362,423 | (942,718) |
| | ===== | ===== |
| Net Income (Loss) per share - basic | \$ 127.25 | \$ (0.05) |
| | ===== | ===== |
| Weighted average number of common shares outstanding - basic | 50,000 | 20,551,440 |
| | ===== | ===== |

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3

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
 PRO-FORMA CONSOLIDATED BALANCE SHEET
 As of December 31, 2003
 (Expressed in US Dollars)

| | ORIENTAL WAVE | DRAGON | |
|---|------------------|--------------|-----|
| | ----- | ----- | |
| ASSETS | | | |
| Current | | | |
| Cash and short term securities | \$ 515,791 | \$ 3,126,667 | |
| Accounts receivable | 4,267,353 | 1,265,676 | |
| Inventories | 7,488,085 | 1,090,464 | |
| Due from director | | | |
| Prepaid and deposits | 119,070 | 139,595 | (a) |
| | ----- | ----- | |
| Total Current Assets | 12,390,299 | 5,622,402 | |
| | ----- | ----- | |
| Fixed Assets | 37,996,606 | 2,089,352 | |
| Other Tangible Assets | 2,246,452 | | |
| Other Assets | | | |
| Patent rights and Hep B Vaccine | | 500,100 | (a) |
| Intangible and other assets, net | 493,155 | 2,924,198 | (a) |
| | ----- | ----- | |
| Total Other Assets | 493,155 | 3,424,298 | |
| | ----- | ----- | |
| Total Assets | \$53,126,512 | \$11,136,052 | |
| | ===== | ===== | |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DIFFICIENCY) | | | |
| Current Liabilities | | | |
| Accounts payables and accrued liabilities | \$ 21,519,961 | \$1,428,257 | |
| Notes payable - short-term | 806,763 | | |
| Due to a stockholder and related companies | 5,509,135 | | (b) |
| | ----- | ----- | |
| Total Current Liabilities | 27,835,859 | 1,428,257 | |
| | ----- | ----- | |
| Long-term Liabilities | | | |
| Long-term account payable | 1,837,182 | | |
| Notes payable - long-term | 8,454,106 | | |
| Due to related companies | | | (b) |
| | ----- | ----- | |
| Total Liabilities | 38,127,147 | 1,428,257 | |
| | ----- | ----- | |

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Minority Interest

Stockholders' Equity (Deficiency)

| | | | |
|--|--------------|--------------|-----|
| Share Capital | 50,000 | 20,462 | (a) |
| Additional paid in capital | 7,835,865 | 26,708,870 | (a) |
| | | | (b) |
| Due from a stockholder | (228,148) | | |
| Accumulated other comprehensive (loss) | | (32,007) | (a) |
| Retained earnings (deficit) | 7,341,648 | (16,989,530) | (a) |
| | ----- | ----- | |
| Total stockholders' equity | 14,999,365 | 9,707,795 | |
| | ----- | ----- | |
| Total liabilities and equity | \$53,126,512 | \$11,136,052 | |
| | ===== | ===== | |

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DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
 PRO-FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 For the Year Ended December 31, 2003
 (Expressed in US Dollars)

| | ORIENTAL WAVE | DRAGON | PRO- ADJU |
|--|------------------|--------------|--------------|
| | ----- | ----- | ----- |
| Sales | \$ 26,086,092 | \$ 3,648,149 | |
| Cost of Sales | 13,817,298 | 1,184,896 | |
| | ----- | ----- | |
| Gross Profit | 12,268,794 | 2,463,253 | |
| Operating Expenses | | | |
| Selling, general and administrative expenses | 4,156,373 | 3,391,430 | |
| Depreciation and amortization of fixed assets | 540,046 | 743,080 | |
| | ----- | ----- | |
| Total operating expenses | 4,696,419 | 4,134,510 | |
| | ----- | ----- | |
| | 7,572,375 | (1,671,257) | |
| | | | |
| Net write off of land-use right and fixed assets | | (165,912) | |
| New market and EPO development expenses | | (216,560) | |
| Provision for doubtful debts | | (29,450) | |
| Loan interest expense | | (6,357) | |
| | ----- | ----- | |
| Income (Loss) from Operations | 7,572,375 | (2,089,536) | |
| Other Income (Expenses) | | | |
| Interest Income (expense) | (32,384) | 138,802 | |
| Other income | 63,675 | | |
| Other expense | (19,694) | | |
| | ----- | ----- | |

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| | | |
|--|-----------|-------------|
| Income (Loss) before income taxes and minority interest | 7,583,972 | (1,950,734) |
| Minority interest | | |
| Income Tax Expense | | (44,000) |
| | | |
| Net Income (Loss) for the year | 7,583,972 | (1,994,734) |
| | | |
| Net Income (Loss) per share - basic | \$ 151.68 | \$ (0.10) |
| | | |
| Weighted average number of common shares outstanding - basic | 50,000 | 20,348,195 |
| | | |

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Dragon Pharmaceutical Inc. & Subsidiaries
Notes to Unaudited Pro Forma Combined Consolidated Financial Statements
As of December 31, 2004 and December 31, 2003
(Expressed in US Dollars)

1. Basis of Presentation

The accompanying unaudited pro-forma consolidated financial statements have been prepared by management of Dragon in accordance with generally accepted accounting principles of the United States. In the opinion of the management, the pro-forma consolidated financial statements include all material adjustments necessary for fair presentation in accordance with generally accepted accounting principles of the United States.

These pro forma consolidated financial statements have been prepared to give effect to Dragon Pharmaceutical, Inc.'s acquisition of Oriental Wave Holding Limited which occurred on January 12, 2005. These pro forma consolidated financial statements are not necessarily indicative of the actual results which would have been attained had the combination been in effect on the date indicated or may be attained in the future.

These pro forma consolidated financial statements have been prepared from information derived from information derived from the audited consolidated financial statements of Dragon and Oriental Wave as at December 31, 2004 and 2003. These pro forma consolidated financial statements should be read in conjunction with the historical financial statements and notes thereto of both Dragon and Oriental Wave for the year, ended December 31, 2004 and 2003.

2. Share Purchase Agreement and Assumptions

Pursuant to a Share Purchase Agreement dated June 11, 2004, Dragon agreed to issue 44,502,004 shares of common stock in exchange for 100% of the outstanding shares of Oriental Wave. The acquisition was completed on January 12, 2005. The exchange resulted in the former shareholders of Oriental Wave owning a majority of Dragon's shares and, consequently, accounting principles applicable to a reverse take-over have been applied to record the transaction. Under this basis of accounting, Oriental Wave has been identified as the acquirer and, accordingly, the combined company is considered to be a continuation of the operations of Oriental Wave and include Dragon's accounts from the acquisition date. The pro forma consolidated balance sheets as of December 31, 2004 and 2003 have been prepared as though the acquisition had occurred on December 31, 2004 and the pro forma consolidated statement of

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operations for the years ended December 31, 2004 and 2003 have been prepared as though the acquisition had occurred on January 1, 2003.

3. Pro Forma Adjustments

These unaudited pro forma consolidated financial statements reflect the following pro forma adjustments:

(a) Adjustment to record acquisition of the net assets of Dragon by Oriental Wave as though the acquisition occurred December 31, 2004. The net assets acquired are:

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Dragon Pharmaceutical Inc. & Subsidiaries
Notes to Unaudited Pro Forma Combined Consolidated Financial Statements
As of December 31, 2004 and 2003
(Expressed in US Dollars)

| | |
|---|--------------|
| Cash and short term securities..... | \$ 2,161,781 |
| Accounts receivable..... | 1382,019 |
| Inventories..... | 585,565 |
| Due from director..... | 100 |
| Prepaid and deposits..... | 100,421 |
| | ----- |
| Total Current Assets..... | 4,531,192 |
| Fixed Assets..... | 873,036 |
| Other Assets..... | |
| Intangible and other assets, net..... | 2372,207 |
| | ----- |
| Total Assets..... | 7,475,129 |
| Less accounts payables and accrued liabilities..... | (1,548,144) |
| | ----- |
| Net assets acquired..... | \$ 5,926,985 |
| | ===== |

(b) Oriental Wave's stockholders agreed to the conversion of 20 million RMB (US\$2,420,000) of the debt to equity upon the completion of the acquisition. These pro forma consolidated financial statements reflect this transaction having occurred on December 31, 2004.

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