

DRAGON PHARMACEUTICALS INC

Form S-4/A

September 09, 2004

Table of Contents

As filed with the Securities and Exchange Commission on September 9, 2004

Registration No. 333-117428

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Pre-effective Amendment Number 1 to**  
**Form S-4**

**REGISTRATION STATEMENT**

*UNDER THE*

*SECURITIES ACT OF 1933*

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**Dragon Pharmaceutical Inc.**

*(Exact name of registrant as specified in its charter)*

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**Florida**  
(State or Other jurisdiction of  
incorporation or organization)

**2834**  
(Primary Standard Industrial Classification  
Code Number)

**65-0142474**  
(I.R.S. Employer Identification  
No.)

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1055 Hastings Street, Suite 1900

Vancouver, British Columbia V6E 2E9

(604) 669-8817

(Address and telephone number of principal executive offices)

Alexander Wick

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1055 Hastings Street, Suite 1900

Vancouver, British Columbia V6E 2E9

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**Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement and the effective time of the acquisition by the Registrant of all outstanding shares of Oriental Wave Holding Ltd. as described in the Share Purchase Agreement dated June 11, 2004, included as Annex A to the proxy statement/prospectus forming a part of this Registration Statement.**

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

### CALCULATION OF REGISTRATION FEE

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<b>Title of each class of securities to be registered</b>	<b>Amount to be registered</b>	<b>Proposed maximum offering price per share</b>	<b>Proposed maximum aggregate offering price</b>	<b>Amount of registration fee</b>
Common Stock, \$0.001 par value	48,867,551	\$.93 <sup>(1)</sup>	\$45,446,822	\$5,759.00
<b>TOTAL</b>				<b>\$5,759.00*</b>

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<sup>(1)</sup> Fee calculated in accordance with Rule 457(c) of the Securities Act. Estimated for the sole purpose of calculating the registration fee and based upon the closing price of the registrant's common stock of \$.93 as quoted on the OTC Bulletin Board on July 9, 2004.

\* Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.**

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**Table of Contents**

**DRAGON PHARMACEUTICAL INC.**

**1055 West Hastings Street, Suite 1900**

**Vancouver, British Columbia**

**Canada V6E 2E9**

**Telephone (604) 669-8817**

To Our Shareholders:

You are cordially invited to attend the annual meeting of the shareholders of Dragon Pharmaceutical Inc. to be held at 10:00 a.m. local time, on ●, 2004 at our principal executive office located at 1055 West Hastings Street, Suite 1900, Vancouver, British Columbia.

At the meeting, you will be asked to

approve the issuance of shares of common stock to complete the acquisition of a Chinese generic pharmaceutical manufacturer, Shanxi Weiqida Pharmaceutical Co., Ltd., such combination to be accomplished by the exchange of our shares for all outstanding shares of Shanxi Weiqida s sole shareholder, Oriental Wave Holding Ltd., and

consider our customary annual business, being the election of nominees to the board of directors and the ratification of the appointment of the independent accountants.

The approval of the issuance of our common stock in exchange for all outstanding shares of Oriental Wave is being sought to satisfy the requirements of the Toronto Stock Exchange. Upon completion of the acquisition, Oriental Wave and its subsidiary, Shanxi Weiqida, will become our direct and indirect, wholly-owned subsidiaries.

We believe that the acquisition of Oriental Wave will provide substantial strategic and financial benefits to our shareholders and that the transaction will combine our respective strengths and competitive advantages without requiring a fundamental change in strategy for either company. We believe the combined company will have a better opportunity for growth as a result of being more diverse, with established product lines, expanded production facilities and operations in China, and be stronger financially based on our combined sales and earnings. Overall, we believe the combined company will better position us to deliver increased shareholder value over what could be achieved by Dragon individually.

Under the proposed share exchange, the shareholders of Oriental Wave will own, after the exchange, 68.35% of our common shares as calculated on a fully diluted basis. We estimate that at the closing of the acquisition, we will be required to issue approximately 44.4 million shares of common stock, plus any additional shares needed to account for outstanding options and warrants. As this exceeds the number of our available authorized shares of common stock, in order to permit the acquisition to be completed in a single closing, at the meeting we will also be seeking shareholder approval of an amendment to our Certificate of Incorporation to increase the number of our authorized shares of common stock. If the acquisition is approved but the increase in authorized shares is not approved, we intend to complete the acquisition in two stages:

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acquiring a majority of Oriental Wave's shares in the first stage and the balance of the shares only after our shareholders have approved an increase in our authorized shares. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the Oriental Wave shareholders will hold a sufficient number of our outstanding shares to be able to guarantee shareholder approval of the increase of our authorized shares necessary to complete the acquisition.

We hope you plan to attend the annual shareholders' meeting. However, whether or not you plan to attend the meeting in person, in order that we may be assured of a quorum we urge you to sign and return the enclosed proxy in the postage-paid envelope provided as promptly as possible.

*/s/ ALEXANDER WICK*

**Alexander Wick  
President**

•, 2004

**Table of Contents**

**DRAGON PHARMACEUTICAL INC.**

**1055 West Hastings Street, Suite 1900**

**Vancouver, British Columbia**

**Canada V6E 2E9**

**Telephone (604) 669-8817**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held On •, 2004**

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**NOTICE IS HEREBY GIVEN** that the annual meeting of shareholders of Dragon Pharmaceutical Inc. ( Dragon ), a Florida corporation, will be held at our principal executive office located at 1055 West Hastings Street, Suite 1900, Vancouver, British Columbia, on •day, •, 2004 at 10:00 a.m. local time, for the purpose of considering and acting on the following proposals:

1. In order to satisfy the requirements of the Toronto Stock Exchange, to approve the issuance of shares of Dragon's common stock to complete the acquisition of all outstanding shares of Oriental Wave Holding Ltd., the sole shareholder of Chinese generic pharmaceutical manufacturer, Shanxi Weiqida Pharmaceutical Co., Ltd.;
2. To approve an amendment to Dragon's Certificate of Incorporation to increase the number of authorized shares of common stock from 50,000,000 shares to 200,000,000 shares;
3. To elect the two nominees named in the proxy statement/prospectus as directors to serve for one-year terms or until their successors have been elected and qualified;
4. To ratify the appointment of Moore Stephens Ellis Foster Ltd., Chartered Accountants, to audit Dragon's financial statements for the year ending December 31, 2004; and
5. To approve the adjournment of the annual meeting for any permitted reason, including, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the annual meeting to approve the proposals.

**The board of directors has approved the acquisition of Oriental Wave and recommends that you vote to approve the issuance of shares and the amendment to the Certificate of Incorporation to increase the number of authorized shares of common stock. The accompanying proxy statement/prospectus contains a detailed description of the terms of the agreement to acquire Oriental Wave, a discussion of the business of Oriental Wave and its subsidiary, Shanxi Weiqida, and a discussion of Dragon after the acquisition.**

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Only shareholders of record at the close of business on ●, 2004, are entitled to receive notice of and to vote at the meeting. Shareholders are invited to attend the meeting in person.

Please sign and date the accompanying proxy card and return it promptly in the enclosed postage-paid envelope whether or not you plan to attend the meeting in person. If you attend the meeting, you may vote in person if you wish, even if you previously have returned your proxy card. The proxy may be revoked at any time prior to its exercise. If your shares are held in the name of a bank, broker or other fiduciary, please follow the instructions on the voting instruction card furnished by the shareholder of record. **Remember, your vote is important so please act as promptly as possible.**

By Order of the Board of Directors

/s/ MATTHEW KAVANAGH  
**Secretary**

●, 2004

**Table of Contents**

**TABLE OF CONTENTS**

<b><u>PROXY STATEMENT/PROSPECTUS</u></b>	<b>1</b>
<b><u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u></b>	<b>2</b>
<b><u>QUESTIONS AND ANSWERS ABOUT THE MEETING, VOTING AND THE PROPOSED SHARE EXCHANGE WITH THE SHAREHOLDERS OF ORIENTAL WAVE</u></b>	<b>3</b>
<b><u>SUMMARY</u></b>	<b>7</b>
<u>HISTORICAL AND PRO FORMA PER SHARE DATA FOR DRAGON AND ORIENTAL WAVE</u>	14
<u>MARKET PRICE DATA</u>	15
<u>DIVIDENDS</u>	16
<b><u>RISK FACTORS</u></b>	<b>17</b>
<b><u>PROPOSAL 1 ISSUANCE OF SHARES IN CONNECTION WITH THE ACQUISITION OF ORIENTAL WAVE</u></b>	<b>22</b>
<u>THE ACQUISITION</u>	22
<u>Background to the Acquisition</u>	23
<u>Reasons for the Acquisition</u>	27
<u>RECOMMENDATION OF THE BOARD OF DIRECTORS</u>	28
<u>TAX TREATMENT</u>	29
<u>ACCOUNTING TREATMENT</u>	29
<u>Interested Parties in the Transaction</u>	30
<u>RESALES OF DRAGON COMMON STOCK</u>	30
<u>THE SHARE PURCHASE AGREEMENT</u>	30
<u>General</u>	31
<u>Consideration to be Received by Shareholders of Oriental Wave</u>	31
<u>Escrow of Shares</u>	32
<u>Conduct of Business</u>	33
<u>No Solicitation</u>	34
<u>Other Covenants and Conditions</u>	34
<u>Representations and Warranties</u>	36
<u>Conditions</u>	36
<u>Closing Matters</u>	37
<u>Termination of Agreement</u>	37
<u>COMPARISON OF SHAREHOLDER RIGHTS</u>	37
<u>Capital Structure</u>	38
<u>Call of Meeting of Shareholders</u>	38
<u>Notice and Quorum Requirements</u>	38
<u>Voting Rights of Shareholder</u>	38
<u>Action by Written Consent</u>	39
<u>Amendments to Charter Documents</u>	39
<u>Directors and Removal of Directors</u>	39
<u>Dividends</u>	40
<u>Indemnification of Directors and Executive Officers</u>	40
<u>Inspection of Shareholder List and Books and Records</u>	40
<u>INFORMATION ABOUT DRAGON</u>	40
<u>Overview</u>	40
<u>Management's Discussion and Analysis of Financial Condition</u>	41
<u>Dragon's Primary Products</u>	44
<u>Manufacturing and Facilities</u>	46
<u>Intellectual Property</u>	47
<u>Competition</u>	47
<u>Description of Dragon Capital Stock</u>	48





**Table of Contents**

<u>Human Resources</u>	48
<u>Legal Proceedings</u>	48
<u>INFORMATION ABOUT ORIENTAL WAVE AND SHANXI WEIQIDA</u>	48
<u>Overview</u>	48
<u>History and Development of Oriental Wave and Shanxi Weiqida:</u>	49
<u>Management's Discussion and Analysis of Financial Condition</u>	50
<u>Regulation of the Chinese Pharmaceutical Industry</u>	55
<u>Products</u>	57
<u>Sales and Marketing</u>	60
<u>Manufacturing and Facilities</u>	61
<u>Research and Development</u>	63
<u>Intellectual Property</u>	63
<u>Competition</u>	63
<u>Human Resources</u>	64
<u>Legal Proceedings</u>	65
<u>DRAGON AFTER THE ACQUISITION OF ORIENTAL WAVE</u>	65
<u>Product Strategy</u>	66
<u>Manufacturing</u>	67
<u>Sales Strategy</u>	68
<u>Research &amp; Development</u>	69
<u>Human Resources</u>	70
<u>Liquidity and Capital Resources</u>	70
<u>Directors, Management, Promoters and Control Persons After the Acquisition of Oriental Wave</u>	71
<b><u>PROPOSAL 2 - AMENDMENT TO DRAGON'S CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES</u></b>	<b>72</b>
<u>RECOMMENDATION OF THE BOARD</u>	72
<b><u>PROPOSAL 3 - ELECTION OF DIRECTORS</u></b>	<b>73</b>
<u>NOMINEES TO THE BOARD</u>	73
<u>RECOMMENDATION OF THE BOARD</u>	74
<u>PROPOSED NOMINEES OF ORIENTAL WAVE TO THE BOARD</u>	74
<u>ADDITIONAL DIRECTORS IF ACQUISITION IS NOT COMPLETED</u>	74
<u>INFORMATION CONCERNING BOARD COMMITTEES AND MEETINGS</u>	75
<u>OUR EXECUTIVE OFFICERS</u>	77
<u>REPORT ON EXECUTIVE COMPENSATION</u>	77
<u>OPTION GRANTS IN 2003</u>	78
<u>AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND TEN-YEAR OPTIONS/SAR REPRICINGS</u>	79
<u>FISCAL YEAR END OPTION VALUES</u>	79
<u>DIRECTOR COMPENSATION</u>	79
<u>EMPLOYMENT AGREEMENTS</u>	79
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	79
<u>STOCK OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS</u>	80
<u>COMPLIANCE WITH SECTION 16 OF THE SECURITIES EXCHANGE ACT OF 1934</u>	81
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	82
<b><u>PROPOSAL 4 - RATIFICATION OF INDEPENDENT ACCOUNTANTS</u></b>	<b>84</b>
<u>RECOMMENDATION OF THE BOARD</u>	85
<b><u>PROPOSALS OF SHAREHOLDERS</u></b>	<b>85</b>
<b><u>VALIDITY OF DRAGON'S COMMON STOCK</u></b>	<b>85</b>
<b><u>EXPERTS</u></b>	<b>85</b>
<b><u>WHERE YOU CAN FIND MORE INFORMATION</u></b>	<b>85</b>
<b><u>OTHER BUSINESS</u></b>	<b>86</b>

**Table of Contents**

<b><u>INDEX TO FINANCIAL STATEMENTS</u></b>	<b>F - 1</b>
<b>FINANCIAL STATEMENTS</b>	<b>F - 2</b>
<b>ANNEX A SHARE PURCHASE AGREEMENT</b>	

- iii -

**Table of Contents**

**DRAGON PHARMACEUTICAL INC.**

**1055 West Hastings Street, Suite 1900**

**Vancouver, British Columbia**

**Canada V6E 2E9**

**Telephone (604) 669-8817**

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**PROXY STATEMENT/PROSPECTUS**

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We, Dragon Pharmaceutical Inc., are furnishing this proxy statement/prospectus to you in connection with our 2004 annual meeting to be held on •day, •, 2004, at 10:00 a.m. local time at our principal executive office located at 1055 West Hastings Street, Suite 1900, Vancouver, British Columbia, and at any adjournment thereof. The matters to be considered and acted upon are as follows:

in order to satisfy the requirements of the Toronto Stock Exchange, the approval of the issuance of shares of our common stock to complete the acquisition of all outstanding shares of Oriental Wave Holding Ltd., the sole shareholder of Chinese generic pharmaceutical manufacturer, Shanxi Weiqida Pharmaceutical Co., Ltd.,

to approve an amendment to our Certificate of Incorporation to increase the number of our authorized shares of common stock from 50,000,000 shares to 200,000,000 shares so that we will have a sufficient number of authorized shares to complete the acquisition of Oriental Wave in a single closing and a sufficient number of authorized but unissued shares to provide us with flexibility in our corporate planning,

the election of two nominees as directors;

to ratify the appointment of our independent accountants, and

to approve the adjournment of the annual meeting for any permitted reason, including, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the annual meeting to approve the proposals.

The enclosed proxy is solicited on behalf of our board of directors and may be revocable by you at any time before the voting of such proxy. All properly executed proxies delivered pursuant to this solicitation will be voted at the meeting and in accordance with instructions, if any.

This proxy statement/prospectus is also being used as a prospectus of the common stock that we propose be issued in connection with the share exchange with the shareholders of Oriental Wave.

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Unless the context otherwise requires, all references to Dragon, we, us, and our refer to Dragon Pharmaceutical Inc. and its subsidiaries, all references to Oriental Wave refer to Oriental Wave Holding Ltd. and all references to Shanxi Weiqida refer to Oriental Wave's subsidiary, Shanxi Weiqida Pharmaceutical Co., Ltd.

This proxy statement/prospectus is being mailed on or about •, 2004.

- 1 -

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus contains forward-looking statements that are based on the beliefs of our management and reflect our current expectations as contemplated under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. When used in this proxy statement/prospectus, the words estimate, project, believe, anticipate, intend, expect, plan, predict, may, should, will words or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in those forward-looking statements, and discussed in further detail in the section of this proxy statement/prospectus entitled Risk Factors.

The forward-looking statements contained in this proxy statement/prospectus speak only as of the date of the proxy statement/prospectus. Except as required by applicable regulations, Dragon does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus, including the occurrence of unanticipated events.

- 2 -

**Table of Contents**

**QUESTIONS AND ANSWERS**

**ABOUT THE MEETING, VOTING AND**

**THE PROPOSED SHARE EXCHANGE WITH THE**

**SHAREHOLDERS OF ORIENTAL WAVE**

*The following are some questions that you, as a shareholder of Dragon, may have regarding our acquisition of Oriental Wave and the other matters being considered at the annual shareholders' meeting and the answers to those questions. We urge you to read carefully the remainder of this proxy statement/prospectus because the information in this section does not provide all of the information that might be important to you with respect to the share exchange and the other matters being considered at the annual shareholders' meeting. Additional important information is also contained in the annex to this proxy statement/prospectus.*

**What are shareholders being asked to vote on at the meeting?**

Our shareholders will vote on a proposal to approve the issuance of shares of common stock pursuant to a Share Purchase Agreement with the shareholders of Oriental Wave. This proposal is being sought to meet the listing requirements of the Toronto Stock Exchange. In addition, shareholders will be asked to approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 50,000,000 to 200,000,000 so that we will have a sufficient number of shares to complete the acquisition in one stage. If these two proposals are passed and the share exchange is completed, Oriental Wave will become our wholly-owned subsidiary.

At the meeting, shareholders will also vote on the election of directors and the ratification of our independent accountants.

**Why am I receiving this proxy statement/prospectus?**

We and the shareholders of Oriental Wave have agreed to complete a share exchange in which Oriental Wave would become our wholly-owned subsidiary. Under terms of the Share Purchase Agreement entered into with the shareholders of Oriental Wave, in order to fully complete the share exchange we must issue a sufficient number of shares of our common stock such that the shareholders of Oriental Wave will hold, in the aggregate at the completion of share exchange, 68.35% of our outstanding shares (calculated on a fully-diluted basis). Based on 20,582,000 shares of our common stock outstanding and 2,046,500 shares reserved for future issuance as of August 19, 2004, and assuming shareholder approval of an increase in the number of our authorized shares, we estimate that we will issue up to an aggregate of approximately 48.9 million shares of common stock to complete the acquisition of Oriental Wave. A description of the terms of the Share Purchase Agreement is included in this proxy statement/prospectus and a copy of the agreement is also attached to this proxy statement/prospectus as Annex A.

We will seek to obtain approval for these proposals at the meeting. This proxy statement/prospectus contains important information about our common stock, the share exchange and the meeting of shareholders and you should read it carefully. The enclosed voting materials allow you to vote your shares without attending the shareholders' meeting.

**What will happen in the share exchange?**

Under the Share Purchase Agreement, the shareholders of Oriental Wave will exchange all of their outstanding shares of Oriental Wave for shares of our common stock. If the proposals to approve the issuance of shares of common stock in connection with the Share Purchase Agreement and to approve the amendment to our Certificate of Incorporation to increase the number of authorized shares are approved, the acquisition of Oriental Wave will occur in one transaction. If the proposal to approve the issuance of the shares is approved but the proposal to approve an amendment of our Certificate of Incorporation to increase the number of our authorized shares is not approved, we intend to complete the closing of the acquisition in two stages. In the first stage we intend to acquire 60% of the outstanding shares of Oriental Wave for approximately 27.37 million shares of our common



## **Table of Contents**

stock. We intend to acquire the remaining 40% of the outstanding shares of Oriental Wave in consideration for our issuance of the remaining number of shares in a second closing that will occur after shareholder approval of an amendment to our Certificate of Incorporate increasing the number of our authorized shares of common stock. Dragon and the shareholders of Oriental Wave may agree to change the number of shares issued and acquired in the first closing, though we will not complete the first closing unless we acquire more than 50% of the outstanding shares of Oriental Wave. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the Oriental Wave shareholders will hold a sufficient number of our outstanding shares to be able to guarantee approval of the increase of our authorized shares to complete the acquisition.

### **When is the share exchange expected to be completed?**

We anticipate that the share exchange will be completed by the end of the fourth quarter of 2004.

### **Who is entitled to vote?**

Only shareholders of record at the close of business on •, 2004 (the Record Date), are entitled to vote at the meeting, or any postponements or adjournments of the meeting.

### **What are the Board s recommendations on the proposals?**

The Board recommends a vote

FOR the issuance of shares pursuant to the Share Purchase Agreement;

FOR the amendment to our Certificate of Incorporation to increase the authorized number of shares of our common stock from 50,000,000 shares to 200,000,000 shares;

FOR the election of each of the nominees to our board of directors; and

FOR the ratification of Moore Stephens Ellis Foster Ltd., Chartered Accountants, as our independent accountants.

### **How will our directors and senior management vote on the proposals?**

Certain of our directors, Messrs. Cai, Liu, Sun and Wick, have advised us that they and certain of their affiliates or other related parties intend to vote FOR each of the proposals and FOR each of the nominees. We have been advised that this group owns or controls, in the aggregate, 8,192,500 shares of our common stock or 39.8% of our outstanding shares.

**Will I be entitled to dissenters' rights if the proposals are posted?**

Our shareholders will not be entitled to dissenters' rights in connection with any of the proposals.

**How do I vote?**

Sign and date each proxy card you receive and return it in the postage-prepaid envelope enclosed with your proxy materials. If you are a registered shareholder and attend the meeting, you may deliver your completed proxy card in person.

If your shares are held by your broker or bank, in street name, you will receive a form from your broker or bank seeking instructions as to how your shares should be voted. If you do not instruct your broker or bank how to vote, your broker or bank will vote your shares if it has discretionary power to vote on a particular matter.

## **Table of Contents**

### **Who will count the vote?**

Our Secretary will count the votes and act as the inspector of election. Our transfer agent, Computershare Trust Company of Canada, will tally the proxies and provide this information at the time of the meeting.

### **What shares are included on the proxy card(s)?**

The shares on your proxy card(s) represent ALL of your shares. If you do not return your proxy card(s), your shares will not be voted.

### **What does it mean if I get more than one proxy card?**

If your shares are registered differently and are in more than one account, you will receive more than one proxy card. Sign and return all proxy cards to ensure that all your shares are voted. We encourage you to have all accounts registered in the same name and address (whenever possible). You can accomplish this by contacting our transfer agent, Computershare Trust Company of Canada ((604) 661-9400), or, if your shares are held in street name, by contacting the broker or bank who holds your shares.

### **How many shares can vote?**

There were • shares of common stock issued and outstanding as of the Record Date. Every shareholder is entitled to one vote for each share of common stock held. We have no other voting securities outstanding.

### **What is a quorum ?**

A quorum is a majority of the outstanding shares entitled to vote and attending the meeting. They may be present in person or represented by proxy. For the purposes of determining a quorum, shares held by brokers or nominees for which we receive a signed proxy will be treated as present even if the broker or nominee does not have discretionary power to vote on a particular matter or if instructions were never received from the beneficial owner. These shares are called broker non-votes. Abstentions will be counted as present for quorum purposes.

### **What do I need to do now?**

After you have carefully read this proxy statement/prospectus, indicate on your proxy card how you want your shares voted, then sign and mail the proxy card in the enclosed postage-prepaid return envelope marked Proxy as soon as possible so that your shares may be represented and voted at the meeting.

**Can I change my vote after I have mailed my signed proxy card?**

Yes. There are three ways for you to revoke your proxy and change your vote. First, you may send a written notice to our secretary stating that you would like to revoke your proxy. Second you may complete and submit a new proxy card. Third, you may vote in person at the meeting.

**What happens if I abstain?**

Proxies marked `abstain` will be counted as shares present for the purpose of determining the presence of a quorum but, for purposes of determining the outcome of a proposal, shares represented by such proxies will not be treated as affirmative votes. For Proposals 1 and 4, affirmative votes of a majority of the shares voting are required. However, for the other proposals requiring an affirmative vote of a majority of the shares present, an abstention is equivalent to a `no` vote.

**Table of Contents**

**If my shares are held by a broker, will the broker vote my shares for me?**

Your broker will vote your shares only if you provide instructions to the broker about how to vote. You should instruct your broker how to vote your shares in accordance with the directions your broker provides. Failure to provide instructions to your broker will result in your shares not being voted.

**How will we solicit proxies?**

We will distribute this proxy statement/prospectus and solicit votes. The cost of soliciting proxies, which will be conducted by mail, will be borne by us. These costs will include the expense of preparing and mailing proxy solicitation materials for the meeting and reimbursements paid to brokerage firms and others for their reasonable out-of-pocket expenses for forwarding proxy solicitation materials to shareholders. Proxies may also be solicited in person, by telephone, or by facsimile by our directors, officers and employees without additional compensation. In addition, we may engage a proxy solicitor to assist us in obtaining votes. If we do engage a proxy solicitor, we will pay a fee and we anticipate that we will indemnify the proxy solicitor for certain actions in connection with the solicitation and the materials contained in this proxy statement/prospectus.

**Whom should I contact with questions or to obtain additional copies of this proxy statement/prospectus?**

Dragon Pharmaceutical Inc.

1055 West Hastings Street, Suite 1900

Vancouver, British Columbia

Canada V6E 2E9

Attention: Garry Wong

Telephone 1-877-388-3784

**Table of Contents**

**SUMMARY**

*This summary highlights information contained elsewhere in this proxy statement/prospectus. We urge you to read carefully the remainder of this proxy statement/prospectus, including Annex A, because this summary does not provide all of the information that might be important to you with respect to the acquisition of Oriental Wave and the other matters being considered at the shareholders' meeting. See also the section entitled "Where You Can Find More Information" beginning on page 86.*

**The Meeting**

Our annual meeting of shareholders is to be held on ●, 2004. At the meeting, shareholders will be asked to

approve the issuance of shares of our common stock to complete the acquisition of Oriental Wave, the sole shareholder of a Chinese generic pharmaceutical manufacturer, Shanxi Weiqida Pharmaceutical Co., Ltd., such acquisition to be accomplished by the exchange of our shares for all of the outstanding shares of Oriental Wave,

approve an amendment to our Certificate of Incorporation to increase the number of our authorized shares of common stock from 50,000,000 to 200,000,000 in order to permit the acquisition of Oriental Wave to be completed in a single closing, and

consider our customary annual business, being the election of nominees to the board of directors and the ratification of the appointment of our independent accountants.

The rules of the Toronto Stock Exchange require that the issuance of the shares in connection with transactions of the nature proposed with Oriental Wave be approved by our shareholders. Shareholders are being asked to approve the resolution authorizing the issue of shares to the shareholders of Oriental to comply with this requirement.

Upon completion of the acquisition, Oriental Wave and its subsidiary, Shanxi Weiqida, will become our direct and indirect, wholly-owned subsidiaries. Under the proposed share exchange, the shareholders of Oriental Wave will own, after the exchange, 68.35% of our common shares as calculated on a fully diluted basis.

**The Companies**

**Dragon.** We are a pharmaceutical and biotechnology company whose business plan is to develop and manufacture pharmaceutical products in China and market pharmaceutical products in China and in other developing countries. The sole product we currently produce is Erythropoietin or EPO. EPO is a glycoprotein that stimulates and regulates the rate of formation of red blood cells. EPO is primarily used to treat anemia, which is a shortage of red blood cells often caused by kidney disease and chemotherapy or radiation therapy.

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We have entered into a series of marketing and license agreements with local pharmaceutical distribution companies to sell, formulate, vial and package our EPO. In most cases the local company is responsible for obtaining, at its expense, all approvals from applicable regulatory authorities that are necessary to permit the sale of our EPO in the licensed area. Currently, we have marketing and license agreements covering approximately 135 countries. We have commenced sales in five of those countries, namely Brazil, India, Egypt, Peru and Ecuador, and our partners in the other licensed countries are working on obtaining required regulatory approvals before they commence sales. We directly market our products in China.

We currently lease an approximately 90,000 square feet facility in Nanjing, China that houses our EPO production line.

- 7 -

## **Table of Contents**

***Oriental Wave & Shanxi Weiqida.*** Oriental Wave, a company incorporated in the British Virgin Islands, is a privately owned holding company. Through its wholly-owned subsidiary, Shanxi Weiqida, Oriental Wave is principally engaged in the development, production and sale of pharmaceutical products in China.

Shanxi Weiqida's operations are located in Datong City, Shanxi Province, China. Shanxi Weiqida currently holds approximately 290 licenses to produce pharmaceutical products in China. Out of these 290 licenses, the Shanxi Weiqida produced 35 products in 2003. In 2002 and 2003 Shanxi Weiqida operated only a pharmaceutical division (the Pharma Division) which produced and marketed generic drugs, mainly anti-infectious drugs. In January 2004, Shanxi Weiqida began operation of a chemical division (the Chemical Division) to produce and market bulk pharmaceutical chemicals, including Clavulanic Acid, 7-ACA and certain sterilized bulk drugs.

Shanxi Weiqida's head office and manufacturing facilities are located in Datong City. The head office and Pharma Division are contained in a fully-integrated facility, totaling approximately 258,300 square feet, and includes three production workshops that house a total of eight production lines, utility infrastructure, quality assurance and quality control and a warehouse. The Chemical Division is located in a different location in Datong City. The manufacturing facilities of this division consist of approximately 818,100 square feet.

## **Required Vote**

The proposals to approve the issuance of common stock in connection with the acquisition of Oriental Wave and to ratify our independent accountants must be approved by the holders of a majority of the shares of common stock who appear in person or by proxy at the annual meeting and vote on the proposal. The proposal to amend our Certificate of Incorporation to increase the number of authorized shares of common stock from 50,000,000 shares to 200,000,000 shares must be approved by holders owning a majority of our outstanding shares of common stock. The nominees who receive the plurality of votes will be elected as our directors.

## **The Acquisition of Oriental Wave**

We have entered into a Share Purchase Agreement with the shareholders of Oriental Wave under which we will acquire all of the outstanding shares of Oriental Wave. In order to acquire control of Oriental Wave and, indirectly, Shanxi Weiqida, we will issue shares of our common stock to the shareholders of Oriental Wave in exchange for all their shares in Oriental Wave.

The total number of shares of common stock to be issued will equal 68.35% of our outstanding common stock after the acquisition, as calculated on a fully diluted basis. Such ownership percentage is fixed and is not subject to change as a result of any fluctuation in the price of Dragon's stock. Based on 20,582,000 shares of our common stock outstanding and 2,046,500 shares reserved for future issuance as of August 19, 2004, and assuming that the proposal to increase the number of authorized shares is approved, we estimate that we will issue up to an aggregate of approximately 48.9 million shares of common stock to complete the share exchange with the Oriental Wave shareholders.

We currently have 50,000,000 shares of common stock authorized and, as of June 30, 2004, we had 20,582,000 shares of common stock outstanding and 2,046,500 shares reserved for issuance in connection with the exercise of outstanding options and warrants. We do not have a sufficient number of authorized shares to, in a single closing, fully satisfy our commitment to issue shares to the Oriental Wave shareholders. If the proposal to approve the issuance of shares to the Oriental Wave shareholders is approved, but the proposal to amend our Certificate of Incorporation to increase our authorized shares is not approved, we and the shareholders of Oriental Wave have agreed to complete the share



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exchange in two stages. The first stage of the acquisition will result in 60% of the shares of Oriental Wave transferred to us in exchange for approximately 27.37 million shares of our common stock. This will result in the Oriental Wave shareholders owning, as a group, approximately 54.74% of our shares of common stock as calculated on a fully diluted basis (57.08% on a non-dilutive basis) and we will own 60% of the common shares of Oriental Wave. We intend to complete the balance of the acquisition of shares of Oriental Wave as soon as practicable after we receive shareholder approval of an increase to our authorized shares. We and the shareholders of Oriental Wave may change the number of shares issued and acquired in the first closing, although we will not complete the first closing unless we acquire more than 50% of the outstanding shares of Oriental Wave. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the

- 8 -

## **Table of Contents**

Oriental Wave shareholders will hold a sufficient number of our outstanding shares to be able to guarantee shareholder approval of an increase of our authorized shares to complete the acquisition.

### **Conditions to Completion of the Acquisition**

The obligation of the parties to complete the acquisition is subject to the fulfillment of each of the following conditions:

the representations and warranties of each party contained in the Share Purchase Agreement being true and correct in all material respects as of the closing of the acquisition or being waived,

all covenants and agreements contained in the Share Purchase Agreement to be performed or complied with being performed or complied with in all material respects or being waived,

each party acknowledging or waiving the satisfaction of the conditions to closing for the benefit of those parties, and

the obtaining of all required regulatory approvals and consents, which condition will not be waived by Dragon.

In addition, the obligation of the parties to complete the acquisition is subject to the fulfillment or waiver of their receiving all of the certificates, certified copies of resolutions, copies of consents, regulatory approvals and letters, executed escrow agreements, legal opinions and other documents and instruments to be delivered at the closing of the acquisition as set out in the Share Purchase Agreement.

The obligation of Dragon to complete the acquisition is subject to the fulfillment or waiver of each of the following additional conditions

all share purchase options and any other convertible securities of Oriental Wave being exercised for, or converted into, shares of Oriental Wave or cancelled by the closing of the acquisition and the shares of Oriental Wave held by Mr. Han, Mr. Weng and Ms. Liu representing all of the outstanding shares of Oriental Wave, and

approximately \$2.4 million (RMB 20 million) in loans owed by Shanxi Weiqida to Shanxi Tongling Pharmaceutical Co., Ltd. a related party, being converted into the paid-in capital of Shanxi Weiqida, with the balance of the loan approximately \$2.7 million (RMB 22 million) remaining outstanding on the current terms of such loan. Mr. Han, the Chairman of Oriental Wave, is also the Chairman of Shanxi Tongling Pharmaceutical Co., Ltd.

### **Termination of Share Purchase Agreement**

If the closing of the acquisition has not occurred on or before 5:00 p.m. (Pacific Time) on December 31, 2004, the Share Purchase Agreement will automatically terminate. The Share Purchase Agreement also may be terminated

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at any time with the written consent of each party,

by the Oriental Wave shareholders if they notify us that they do not wish to proceed with the exchange of their shares on the basis that there has been a material decrease in the value of Dragon as a company, including but not limited to the value available to a proposed acquirer in the goodwill and reputation of Dragon as a public company, there is any indication of improper trading activity in Dragon's stock. A decrease in Dragon's stock price, in and of itself, is also not considered to be a material decrease in the value of Dragon as a company, or

- 9 -

## **Table of Contents**

by us if we notify the Oriental Wave shareholders that our board of directors has identified and decided to pursue an alternative transaction.

If the Share Purchase Agreement is terminated by the Oriental Wave shareholders or by Dragon in the circumstances described above, we are required to reimburse Oriental Wave for the reasonable expenses actually incurred by Oriental Wave in connection with all matters relating to the acquisition up to an amount not to exceed \$500,000.

## **Reasons for the Acquisition**

We believe that the acquisition of Oriental Wave represents an important strategic step for us that will strengthen our competitive position. Combining the businesses of Dragon and Oriental Wave into one unified organization will expand our range of products, allow us to leverage the marketing networks we both have built over the years in China and in international markets and improve our ability to execute our combined business strategy. These benefits will enable us to better capitalize on attractive global market opportunities in the generic pharmaceutical sector as well as the bulk pharmaceutical chemicals sector and position us for increased revenue and growth. Among the benefits we anticipate realizing from the acquisition are the following:

***Achievement of Critical Scale.*** We are currently a relatively small company and are often considered as a minor participant in the global pharmaceutical industry. After the acquisition of Oriental Wave we will have substantially increased our scale in terms of asset size, range of products offered, number of employees, manufacturing capabilities and number of manufacturing facilities. With this increase in size, we expect to be able to attract more market attention and generate more business opportunities with customers and business partners and, as a result, be able to more effectively execute our business strategy and better compete in our target markets in the global pharmaceutical industry.

***Diversification.*** We believe the acquisition will facilitate our continued transition from a single product company to a more diversified company offering broader and more proven product lines of pharmaceutical, chemical and biotech products. We believe the breadth and nature of the combined product portfolio will be a competitive advantage for the combined company. In addition, the diversification impact of the acquisition will mitigate the overall business risk profile of Dragon and also enable Dragon to operate in multiple sectors of the global pharmaceutical market.

***Complementary Sales Platform.*** Oriental Wave, through its subsidiary, Shanxi Weiqida, maintains direct and indirect sales networks in China. Its direct sales network consists of sales offices established throughout China to market, promote and sell Shanxi Weiqida's products. Such sales offices are managed by sales managers who are employed by Shanxi Weiqida. Its indirect sales network consists of 10 nationwide and 12 district-wide agents retained to sell and distribute products. The indirect sales networks are similar to a third-party agency and the individuals in the indirect sales networks are not employees of Oriental Wave or Shanxi-Weiqida. We believe the direct and indirect sales networks will compliment our existing licensing and third party distribution arrangements. We expect that the complementary distribution platform will give the combined company a market reach that provides coverage of the combined portfolio in both the Chinese and international markets. This is expected to accelerate the distribution of our products into Oriental Wave's core Chinese market and Oriental Wave's products into our world-wide distribution arrangements.

***Complementary Management Expertise.*** We will combine the management teams of Oriental Wave, which has extensive experience in pharmaceutical product manufacturing and sales and marketing in China, and those of Dragon, which has extensive experience in international regulatory affairs and international market development for pharmaceutical products manufactured in China.

***Cost and Revenue Synergies.*** Potential cost synergies, after the acquisition, include costs saved by combining duplicative sales teams and offices of Oriental Wave and Dragon, which may cover the same market area in China and by combining the management of the manufacturing, marketing, human resources, supply chain management and finance operations. We believe that Oriental Wave's

comprehensive sales network in China and Dragon's extensive licensee networks for the international

## **Table of Contents**

market outside of China will enable cross-selling of each other's products to achieve higher sales than both companies could achieve on a stand-alone basis.

***Capturing Multiple Growth Opportunities.*** A growing trend in the generic drug and chemical sectors of the pharmaceutical industry is the relocation of the production of bulk pharmaceutical chemicals from developed countries such as Europe to developing countries such as China and India to leverage the low cost environment and other specific location advantages. We believe that the acquisition of Oriental Wave fits this trend and will enable the combined company to compete more effectively and capture more global business opportunities.

## **Risks Associated with the Acquisition**

There are risks and uncertainties that we face in connection with the proposed acquisition of Oriental Wave. Among the risks are the following:

***There may be difficulties with integrating the two existing businesses.*** The integration of our business with Oriental Wave's will require implantation of a unified business plan, product strategy and administrative structure and the coordination of expanded business operations. We have never completed any acquisition or merger of this size or scope and we may not be successful in integrating the two businesses in a timely and cost effective manner and, as a result, may not achieve the anticipated benefits from this acquisition.

***Oriental Wave shareholders will be able to control matters requiring shareholder approval.*** The three shareholders of Oriental Wave will hold, in the aggregate, 68.35% of our outstanding shares after completion of the acquisition. As a result, they will have the ability to control many matters requiring shareholder approval including approvals of significant corporate transactions requiring majority approval without seeking the approval of the other shareholders. They will also have the ability to significantly influence other matters requiring shareholder approval including our election of directors. This could result in entrenched management.

***Oriental Wave has a substantial amount of short term debt.*** As of June 30, 2004, Oriental Wave had short term notes payable of approximately \$12.9 million of which \$1.8 million is due in September 2004 and the remaining \$11.1 million is due in 2005. Although Oriental Wave has had conversations with its bankers to restructure or renew the notes, no assurances can be given that this will occur.

***Oriental Wave's subsidiary, Shanxi Weiqida, relies heavily on the sale of a few products.*** The top five products sold by Shanxi Weiqida during 2003 represented approximately 72% of Oriental Wave's overall revenue. If, after the acquisition, there is a substantial decrease in the sales of these products, our financial results could be adversely affected.

***Initially, we will be relying even more heavily on the China market.*** All of Shanxi Weiqida's revenue and a significant portion of our revenue was derived from sales in China and it is anticipated that sales of products in China will continue to represent a significant portion of our sales after the acquisition is completed. As a result, any adverse changes in the economic, political and social conditions in China could adversely affect our operating results and financial condition.

These are just some of the risks we face in connection with our proposed acquisition of Oriental Wave. For a complete discussion of these and other risks related to the acquisition and the combined company; see the section entitled "Risk Factors" beginning on page 17.

## **Recommendation of the Board of Directors**

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The Board of Directors has determined that the acquisition of Oriental Wave is in the best interests of Dragon and is fair to our shareholders. Therefore the Board has approved the acquisition and the increase of our authorized shares and recommends that shareholders of Dragon vote FOR the resolution to approve the issuance

- 11 -

## **Table of Contents**

of shares in connection with the acquisition of Oriental Wave and FOR the resolution approving the amendment required to increase our authorized shares in order to complete the acquisition of Oriental Wave in a single closing.

The Board meeting held on May 18, 2004 at which the acquisition was approved was attended by four of the five members of the Board of Directors (Drs. Wick, Liu, Sun and Cai attending and Mr. Yuen absent). All four directors who attended the meeting voted in favor of the Board resolution approving the acquisition. Subject to the finalization of certain business issues between Dragon and Oriental Wave, the President and CEO of Dragon was authorized to sign the Share Purchase Agreement.

Certain of our directors, Messrs. Cai, Liu, Sun and Wick, have advised us that they and certain of their affiliates or other related parties intend to vote FOR the resolution to approve the acquisition and FOR the proposal to increase our authorized capital. We have been advised that this group owns or controls, in the aggregate, 8,192,500 shares of our common stock or 39.8% of our outstanding shares.

## **Interests of Our Directors and Officers in the Acquisition of Oriental Wave.**

The acquisition was negotiated at arm's length and none of the Board of Directors or management of Dragon had any prior connection to Oriental Wave. We are not aware of any additional or unique compensation that will be received by any officer, director, major shareholder or affiliate of Dragon or Oriental Wave in connection with the acquisition.

## **Management After the Acquisition**

On the completion of the acquisition, Oriental Wave will operate as a wholly-owned subsidiary of Dragon. Under the Share Purchase Agreement, we have agreed that Mr. Yanlin Han, Mr. Zhanguo Weng and Ms. Xuemei Liu, will be appointed directors of Dragon. Mr. Han is Chairman of the board of Oriental Wave, Mr. Weng is a director of Oriental Wave and the General Manager of Shanxi Weiqida and Ms. Liu is a Director of Oriental Wave.

Our most senior executive positions after the acquisition will be filled by Mr. Han and our President and CEO, Dr. Wick. Mr. Han will be appointed as our Chief Executive Officer and Dr. Wick will become our President. Dr. Wick and the entire management team will report to Mr. Han. As President, Dr. Wick will be responsible for overseeing our international business and market development. We also intend to appoint a Chief Operating Officer, who will be overseeing our corporate operations and a Chief Financial Officer, who will be overseeing finance, investor relations and corporate compliance.

## **Summary Unaudited Pro Forma Financial Information**

We have prepared pro forma consolidated financial statements to show the effect of the proposed acquisition of Oriental Wave, with the pro forma consolidated balance sheet prepared as though the proposed acquisition had occurred on December 31, 2003 and the pro forma consolidated statement of operation as though it had occurred on January 1, 2003. The exchange of shares will result in the former shareholders of Oriental Wave owning a majority of the shares in Dragon and, consequently, accounting principles applicable to a reverse take-over have



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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 the accounts of Dragon from the acquisition date. The pro forma financial statements have been presented assuming that proposal 2 has been approved increasing the number of shares of authorized common stock and as if proposal 2 has not been approved, in which case Dragon would only acquire 60% of the outstanding common shares of Oriental Wave.

The pro forma consolidated financial statements have been prepared from information derived from the audited consolidated financial statements of Dragon and Oriental Wave as at December 31, 2003 and the unaudited consolidated financial statements of Dragon and Oriental Wave as at June 30, 2004 included elsewhere herein. 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, 2003 and the six months ended June 30, 2004. These pro forma consolidated financial statements are not necessarily indicative of the

- 12 -

**Table of Contents**

actual results which would have been attained had the combination been in effect on the date indicated or which may be attained in the future.

The following is a summary of the information included in the pro forma consolidated financial statements.

**Pro Forma Consolidated Balance Sheet Data**

As of June 30, 2004

	<b>ORIENTAL WAVE</b>	<b>DRAGON</b>	<b>PRO FORMA ADJUSTMENT</b>	<b>100% PRO FORMA CONSOLIDATED</b>	<b>MINORITY INTEREST ADJUSTMENT<sup>(1)</sup></b>	<b>60% PRO FORMA CONSOLIDATED</b>
Total Current Assets	\$ 17,774,370	\$ 5,739,882	\$ 1,699,900	\$ 25,214,152		\$ 25,214,152
Total Assets	\$ 71,791,336	\$ 8,892,889	\$ 1,699,900	\$ 82,384,045		\$ 82,384,045
Total Liabilities	\$ 51,495,767	\$ 1,325,780	\$ (2,420,000)	\$ 50,401,547		\$ 50,401,547
Total Shareholders Equity	\$ 20,295,569	\$ 7,567,029	\$ 4,119,900	\$ 31,982,498	\$ (8,118,228)	\$ 23,864,270

**Pro Forma Consolidated Balance Sheet Data**

As of December 31, 2003

	<b>ORIENTAL WAVE</b>	<b>DRAGON</b>	<b>PRO FORMA ADJUSTMENT</b>	<b>100% PRO FORMA CONSOLIDATED</b>	<b>MINORITY INTEREST ADJUSTMENT<sup>(1)</sup></b>	<b>60% PRO FORMA CONSOLIDATED</b>
Total Current Assets	\$ 12,390,299	\$ 5,622,402		\$ 20,212,701		\$ 20,212,701
Total Assets	\$ 53,126,512	\$ 11,136,052	\$ 137,400	\$ 64,399,964		\$ 64,399,964
Total Liabilities	\$ 38,127,147	\$ 1,428,257	\$ (2,420,000)	\$ 37,135,404		\$ 37,135,404
Total Shareholders Equity	\$ 14,999,365	\$ 9,707,795	\$ 2,557,400	\$ 27,264,560	\$ (5,999,746)	\$ 21,264,814

**Pro Forma Consolidated Statement of Operations Data**

For the Six Months Ended June 30, 2004

	<b>ORIENTAL WAVE</b>	<b>DRAGON</b>	<b>PRO FORMA ADJUSTMENT</b>	<b>100% PRO FORMA CONSOLIDATED</b>	<b>MINORITY INTEREST ADJUSTMENT<sup>(1)</sup></b>	<b>60% PRO FORMA CONSOLIDATED</b>
Sales	\$ 14,475,985	\$ 1,786,415		\$ 16,242,400		\$ 16,242,400
Gross Profit	\$ 7,842,754	\$ 1,344,918		\$ 9,187,672		\$ 9,187,672
Total operating expenses	\$ 3,208,134	\$ 1,821,791		\$ 5,029,925		\$ 5,029,925
Income (Loss) from Operations	\$ 5,450,853	\$ (663,616)		\$ 4,787,237		\$ 4,787,237

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Net Income (Loss) for the year	\$ 5,112,839	\$ (637,427)	\$ 4,475,412	\$ (2,045,136)	\$ 2,430,276
Net Income (Loss) per share - basic and diluted	\$ 102.26	\$ (0.03)	\$ 0.07		\$ 0.05

**Pro Forma Consolidated Statement of Operations Data**

For the Year Ended December 31, 2003

	<u>ORIENTAL WAVE</u>	<u>DRAGON</u>	<u>PRO FORMA ADJUSTMENT</u>	<u>100% PRO FORMA CONSOLIDATED</u>	<u>MINORITY INTEREST ADJUSTMENT<sup>(1)</sup></u>	<u>60% PRO FORMA CONSOLIDATED</u>
Sales	\$ 26,086,092	\$ 3,648,149		\$ 29,734,241		\$ 29,734,241
Gross Profit	\$ 12,268,794	\$ 2,463,253		\$ 14,732,047		\$ 14,732,047
Total Operating Expenses	\$ 4,696,419	\$ 4,134,510		\$ 8,830,929		\$ 8,830,929
Income (Loss) from Operations	\$ 7,572,375	(\$2,089,536)		\$ 5,482,839		\$ 5,482,839
Net Income (Loss) for the Year	\$ 7,583,972	(\$1,994,734)		\$ 5,589,238	(\$3,033,589)	\$ 2,555,649
Net Income (Loss) per Share - basic and diluted	\$ 151.68	(\$0.10)		\$ 0.09		\$ 0.05

<sup>(1)</sup> If the issuance of shares in connection with the acquisition is approved by shareholders but the amendment to increase does not receive the required vote, there will be a partial closing of the acquisition with Dragon issuing approximately 27.37 million shares of common stock in exchange for 60% of the shares of Oriental Wave. Dragon intends to attempt to complete the acquisition once the amendment to increase in the authorized shares is approved. Until that time, there will be a 40% minority interest in Oriental Wave. See The Share Purchase Agreement Consideration to be Received by Shareholders of Oriental Wave .

**Table of Contents**

Dragon expects to incur reorganization and restructuring expenses as a result of the proposed acquisition. The effect of the estimated acquisition and reorganization costs expected to be incurred has not been reflected in the unaudited pro forma consolidated financial statements. Dragon also anticipates that the acquisition will provide the combined company with some future financial benefits that include reduced operating expenses and opportunities to earn more revenue. However, Dragon does not reflect any of these anticipated cost savings or benefits in the pro forma financial information. Therefore, the pro forma financial information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not attempt to predict or suggest future results. The pro forma financial information also does not attempt to show how the combined company would actually have performed had the companies been combined throughout the periods presented. Dragon has included in the pro forma financial statements all the adjustments necessary for a fair statement of results of the historical periods.

Given the information regarding the proposed acquisition, the actual consolidated financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein because, among other reasons:

assumptions used in preparing the pro forma financial data may be revised in the future due to changes in values of assets or liabilities, including finalization of the calculation of intangibles, and changes in operating results between the dates of the unaudited pro forma financial data and the date on which the acquisition takes place; and

adjustments may need to be made to the unaudited historical financial data upon which such pro forma data are based.

**Historical and Pro Forma Per Share Data for Dragon and Oriental Wave**

The table below shows the book value and earnings per share for Dragon and Oriental Wave both on a historical and a pro forma basis. Our pro forma data was derived by combining historical consolidated financial information of Dragon and Oriental Wave using the purchase method of accounting for the acquisition. Oriental Wave's equivalent pro forma data was derived by multiplying our pro forma income per share before nonrecurring charges or credits directly attributable to the acquisition and the pro forma book value per share, by the assumed consideration of 44,448,016 shares of Dragon common stock for all shares of Oriental Wave, so that the per share amounts are equated to the respective values for one share of Oriental Wave.

You should read the respective audited and unaudited financial statements and related footnotes of Dragon and Oriental Wave included in this proxy statement/prospectus.

	<b>At or for the Six Months Ended June 30 , 2004</b>	<b>At or for the Year Ended</b>
	<b>(unaudited)</b>	<b>December 31, 2003</b>
<b>Book value per share:</b>		
Dragon	\$ 0.37	\$ 0.47
Oriental Wave	\$ 405.91	\$ 299.99
Dragon pro forma	\$ 0.49	\$ 0.42
Oriental Wave pro forma	\$ 437.20	\$ 373.40



**Table of Contents**

	At or for the Six Months Ended June 30 , 2004	At or for the Year Ended December 31, 2003
	(unaudited)	
<b>Tangible book value per share:</b>		
Dragon	\$ 0.31	\$ 0.33
Oriental Wave	\$ 396.65	\$ 290.12
Dragon pro forma	\$ 0.47	\$ 0.39
Oriental Wave pro forma	\$ 413.91	\$ 347.99
<b>Basic and diluted earnings (loss) per share:</b>		
Dragon	\$ (0.03)	(\$ 0.10)
Oriental Wave	\$ 102.26	\$ 151.68
Dragon pro forma	\$ 0.07	\$ 0.09
Oriental Wave pro forma	\$ 61.29	\$ 76.68
<b>Number of shares outstanding at the end of each period:</b>		
Dragon	20,582,000	20,262,000
Oriental Wave	50,000	50,000
Pro Forma	65,030,016	64,910,016

**Market Price Data**

Our common stock began quotation on the OTC Bulletin Board on October 9, 1998 under the symbol DRUG . In addition, our shares of common stock are listed on the Toronto Stock Exchange under the symbol DDD and are quoted on the Berlin-Bremen Exchange, the Frankfurt Exchange and the XETRA Exchange under the symbol DRP . The OTC Bulletin Board represents our primary market. Dragon s common stock being quoted and traded on the Berlin-Bremen Exchange, Frankfurt Exchange and XETRA Exchange are without the Company s prior knowledge. The following quotations reflect the high and low bids for our common stock on a quarterly basis for the most recent quarter and for each quarter in the past two fiscal years as quoted on the OTC Bulletin Board. These quotations are based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. As of June 11, 2004, which represents the last trading immediately before the public announcement of the signing of the Share Purchase Agreement, the closing price of a share of our common stock was \$0.94.

	Common Stock	
	High	Low
Quarter Ended		
Through August 19, 2004	\$ 1.10	\$ 0.83
June 30, 2004	\$ 1.10	\$ 0.67
March 31, 2004	\$ 1.22	\$ 0.81
December 31, 2003	\$ 1.70	\$ 0.82
September 30, 2003	\$ 1.18	\$ 0.41
June 30, 2003	\$ 0.89	\$ 0.25
March 31, 2003	\$ 0.70	\$ 0.48
December 31, 2002	\$ 0.95	\$ 0.60
September 30, 2002	\$ 1.49	\$ 0.75
June 30, 2002	\$ 1.95	\$ 1.07
March 31, 2002	\$ 1.90	\$ 1.53

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Oriental Wave is a privately held British Virgin Islands corporation. Its common shares are not listed on any exchange nor quoted on any automated quotation system. There is no market for Oriental Wave's common shares.

- 15 -

**Table of Contents**

**Dividends**

Neither we nor Oriental Wave have paid any dividends on our common stock and may not do so in the future. For the foreseeable future, we expect earnings, if any, will be retained to finance the growth of the combined company.

- 16 -



**Table of Contents**

**RISK FACTORS**

You should carefully consider the risks described below before voting on the proposals, and in particular Proposals 1 and 2, contained in this proxy statement/prospectus. If any of the following risks occur, the business, financial condition or results of operations of the combined company after the acquisition could be materially harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

*Risks Related to the Acquisition*

**Oriental Wave's shareholders will be able to control matters requiring shareholder approval.**

Upon completion of the proposed share exchange, Oriental Wave's shareholders, Messrs. Han and Weng and Ms. Liu, will, in the aggregate, own 68.35% of our issued and outstanding shares of common stock. As a result, these shareholders will be able to control certain corporate governance matters requiring shareholders' approval, including the approval of significant corporate transactions and any other transactions requiring a majority vote without seeking other shareholders' approval. They will also have the ability to control other matters requiring shareholder approval including our election of directors which could result in the entrenchment of management. To our knowledge, Oriental Wave's shareholders have not indicated to us a desire to sell their shares to be acquired in the share exchange in the near future, however, any such sale could make it more difficult for our current shareholders to sell their shares or could result in significantly reduced prices.

**The acquisition may fail to achieve the expected benefits.**

We have entered into an agreement to acquire Oriental Wave in an effort to obtain additional sales and operating efficiencies, among other benefits. These expected benefits may not be achieved. Whether we ultimately realize these benefits will depend on a number of factors, many of which are outside our control including our success in integrating Oriental Wave's operations, technological changes, the impact of competitive forces, and other general market conditions or economic factors specific to the pharmaceutical industry in general. Even if we are able to integrate our respective operations and if economic conditions remain stable, there can be no assurance that the anticipated benefits will ever be achieved. The failure to achieve such benefits could have a material adverse effect on the business, results of operations and financial condition of the combined company after the acquisition is completed.

**We may not be able to successfully integrate Oriental Wave and its subsidiary, Shanxi Weiqida, into our business, and the integration process will place significant demands on our managerial resources.**

The integration of Oriental Wave and its subsidiary, Shanxi Weiqida, into our business will pose many challenges, including the development and implementation of a unified business plan, product strategy and administrative structure, consolidation of a combined sales and marketing network in China, coordinating expanded business operations, and retaining key employees from our current business and from Oriental Wave and Shanxi Weiqida. We have not completed any acquisition or merger of this size or scope. Thus, we cannot assure you that we will be able to successfully integrate the operations of Oriental Wave and Shanxi Weiqida in a timely or cost-effective manner and achieve the anticipated benefits. The integration may also divert the attention of, and place significant demands on, our managerial resources and disrupt our current business operations. There can be no assurance that such integration will be accomplished smoothly or successfully. The inability of management to successfully integrate the operations of the two companies could have a material adverse effect on our business, results of

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operations and financial condition including, without limitation, our sales and marketing efforts. Consequently, our results of operations may be adversely affected. We have estimated that the integration of the two companies will take approximately six months including consolidating the sales network and reorganizing the headquarters in Vancouver to have a unified corporate governance and management system, establishing a Chinese headquarters for the overall management of our business activities in China, and to combine our international market

- 17 -

## **Table of Contents**

development. Since neither side has ever been involved in a business combination of this size, unexpected difficulties may result and it may take a longer time than we estimate to fully accomplish the integration process.

### *Risks Related To Oriental Wave and its Subsidiary, Shanxi Weiqida*

#### **Oriental Wave must restructure its short-term loans.**

As of June 30, 2004, Oriental Wave had a working capital deficit of \$16,810,887, and short term notes of \$12.9 million. Oriental Wave is currently in the process of restructuring or renewing these short-term loans. If Oriental Wave is not successful in restructuring such short-term loans, this may have an adverse affect, including the limitation of growth on its operations as well as the operations of the combined company after the acquisition is completed.

#### **Shanxi Weiqida relies heavily on the sale of a few products.**

Shanxi Weiqida's top five products for 2002 and 2003 were Amoxicillin Sulbactam, Mezlocillin, Cloxacillin, Metronidazole and Ampicillin Cloxacillin, while the top five products for the first six months of 2004 were Amoxicillin Sulbactam, Mezlocillin, Metronidazole, Ampicillin Cloxacillin and Amoxicillin Sodium/Clavulanate Potassium. The top five products sold by Shanxi Weiqida amounted to approximately \$9.5 million and \$18.8 million of its sales during 2002 and 2003, respectively, representing approximately 85% and 72% of Oriental Wave's overall sales for those periods. Although we do anticipate that there will be a material change in demand for these products, a change in demand for these products due to world competition, market forces or other factors outside of its control, could adversely affect our sales and net income and the sales and net income of the combined company after the acquisition.

During 2002, 2003 and the first six months ended June 30, 2004, sales to Shanxi Weiqida's five largest distributors of pharmaceutical products in China accounted for approximately 15.3%, 11.5% and 8.4% of Shanxi Weiqida's overall sales, respectively. These distributors in turn distribute Shanxi Weiqida's products to its ultimate customers. Sales to Shanxi Weiqida's largest distributor accounted for approximately 5.5%, 3.5% and 2.4% of Shanxi Weiqida's sales respectively for the same periods. Although sales to the largest distributor have accounted for a decreasing percentage of Shanxi Weiqida's overall sales, Shanxi Weiqida believes that the loss of this distributor may require Shanxi Weiqida to generate sales through new distributors.

#### **Shanxi Weiqida is required to contribute a portion of its net income to a Statutory Reserve Fund which may not be distributed.**

By law, Shanxi Weiqida is required to contribute at least 10% of its after tax net income (as determined in accordance with Chinese GAAP) into a statutory surplus reserve until the reserve is equal to 50% of Shanxi Weiqida's registered capital, and between a further 5% and 10% of its after tax net income, as determined by Shanxi Weiqida's Board of Directors, into a public welfare fund. These reserve funds are recorded as part of shareholders' equity but are not available for distribution to shareholders other than in the case of a liquidation. As a result of this requirement, the amount of net income available for distribution to shareholders will be limited.

*Risks related to the Combined Company after the Acquisition*

**Oriental Wave has a negative working capital which may slow growth.**

As of June 30, 2004, Oriental Wave had a negative working capital of \$16,810,887 and short-term notes due of \$12.9 million. Oriental Wave is currently negotiating with its banks to restructure or renew its notes. Assuming that Oriental Wave is successful in renegotiating its notes and that vendors continue to work with Oriental Wave as to their accounts payables, Oriental Wave believes that it will be able to continue to fund its operations from product sales for the near future. However, this negative working capital may limit Oriental Wave's growth, and the growth of the combined company, since the majority of its earnings will be used to pay accounts payable and existing debts. Further, if Oriental Wave is unsuccessful in restructuring and renewing its notes or if vendors

## **Table of Contents**

demand immediate payment, these actions will adversely affect operations and may require Oriental Wave to sell certain assets to pay off liabilities.

### **We may be subject to product liability claims in the future that could harm our business and reputation.**

Product liability claims may arise if harmful products are sold to members of the public or if there are any alleged harmful effects from the consumption of our products. Under current Chinese laws, manufacturers and vendors of defective products in China may incur liability for loss and injury caused by such products, including having their business licenses revoked and facing criminal liability. Consistent with industry practice in China, Shanxi Weiqida does not carry liability insurance coverage. Should any product liability claim be brought against us, there is no assurance that it would not have an adverse impact on our business, profitability or business reputation.

### **We will be dependent upon the services of Mr. Han**

Upon the consummation of the acquisition, it is anticipated that Mr. Han, our largest shareholder after the acquisition, will serve as CEO. As a result, our operations will be dependent on Mr. Han who has been the driving force behind Oriental Wave and Shanxi Weiqida. If something happens to Mr. Han, this could divert management's time and attention and adversely effect our ability to conduct the combined business effectively.

### *Risks Related to the People's Republic of China*

### **Shanxi Weiqida relies heavily on the China market and changes in the market could harm our business.**

During 2002 and 2003, 100% of Shanxi Weiqida's sales were derived from China. It is anticipated that Shanxi Weiqida products in China will continue to represent a significant portion of Oriental Wave's sales in the near future. As a result of its reliance on the China market, the operating results and financial performance of Oriental Wave and the combined company after the acquisition is completed could be affected by any adverse changes in economic, political and social conditions in China. For example, if legislative proposals for pharmaceutical product pricing, reimbursement levels, approval criteria or manufacturing requirements should be proposed and adopted, such new legislation or regulatory requirements may have a material adverse effect on our financial condition, results of operations or cash flows. In addition, we will be subject to varying degrees of regulation and licensing by governmental agencies in China. There can be no assurance that future regulatory, judicial and legislative changes will not have a material adverse effect on Shanxi Weiqida, that regulators or third parties will not raise material issues with regard to compliance or non-compliance with applicable laws or regulations or that any changes in applicable laws or regulations will not have a material adverse effect on Shanxi Weiqida or our operations.

**Certain Shanxi Weiqida products are subject to price controls and if the related manufacturing costs increase, our potential profits may be harmed.**

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In July 2000, in an effort to enhance market competition in the pharmaceutical industry and to reduce medical expenses, the former State Development and Planning Commission of the People's Republic of China promulgated a new policy to reform the price control of pharmaceutical products in China. According to the policy, the price of pharmaceutical products is subject to the control by government bureaus at state and provincial levels. In the event that the sale prices of our products are limited by government bureaus at the state and provincial levels, this may have an adverse effect on our net income, especially if our costs associated with those products increase. Approximately 22 out of the 35 products from the Pharma Division of Shanxi Weiqida, accounting for approximately 39% of 2003 sales and 43% of sales in the first six months of 2004, are subject to governmental imposed retail price controls in China. If manufacturing costs increase for products of Shanxi Weiqida that are subject to price ceilings, and the retail price for those products is not adjusted upwards, Oriental Wave's profitability may be adversely affected as well as the profitability of the combined company after the acquisition.

- 19 -

## **Table of Contents**

### **Shanxi Weiqida is required to maintain compliance with GMP standards.**

All pharmaceutical manufacturers in China, including Shanxi Weiqida, are required to comply with certain Good Manufacturing Practice, or GMP, standards by certain time limits and, if not met, their pharmaceutical manufacturing enterprise permits will be revoked or they will not be renewed and accordingly production will have to be terminated. A GMP certificate is valid for five years from the issuance date of such certificate.

Shanxi Weiqida has been accredited with all GMP certificates it requires for its production facilities. Shanxi Weiqida's GMP certificate for the Pharma division facility will expire and is subject to renewal in August 2008 and the GMP certificate for the Clavulanic Acid facility of the Chemical division will expire and is subject to renewal in January 2009. The standard of compliance required in connection with GMP certificates may change from time to time, which may give rise to substantial compliance burdens and increase Shanxi Weiqida's costs in the future. If the renewal of any required GMP-related status is not granted, the relevant operations of Shanxi Weiqida may have to be terminated which in turn would have an adverse impact on the profitability of Oriental Wave and the combined company after the acquisition is completed.

### **Currency conversion and exchange control could adversely effect our operations and profitability.**

The sales and expenses of Shanxi Weiqida are substantially settled in Renminbi, or RMB. However, our accounts are denominated in U.S. dollars. Accordingly, after the completion of the acquisition of Oriental Wave, our net income, the value of our assets and our ability to pay dividends, if any, in U.S. dollars may be adversely affected by negative changes in the exchange rate of RMB against the U.S. dollar or other currencies.

Major reforms have been introduced to the foreign exchange control system of China. In 1994, the previous dual exchange rate system for RMB was abolished and a unified floating exchange rate system, based largely on supply and demand, was introduced. Since December 1996, under the rules of International Monetary Fund, or IMF, China has provided a free exchange of current accounts, while capital accounts have been subject to foreign exchange control. Foreign exchange transactions under a capital account, including foreign currency-denominated borrowings from foreign banks and principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. However, the payment in and transfer of foreign exchange for current international transactions, such as the payment of dividends or other distributions to shareholders, is deemed a current account and therefore is not subject to Chinese government controls or restrictions. Although China's commitment to IMF is unlikely to change, limitations on foreign exchange could affect our ability to obtain foreign exchange for capital expenditures and we continue to be exposed to negative changes in exchange rates.

### **We may be adversely affected by government plans to consolidate state owned pharmaceutical companies in China.**

The Ministry of Commerce of China has announced a plan to consolidate nearly 5,000 state owned pharmaceutical companies into approximately 12 to 15 companies. The planned consolidation has already commenced and is anticipated to continue until the goals of the Ministry of Commerce have been realized. The Ministry of Commerce has set a near term goal of having 10 large companies with annual sales of over approximately \$600 million by 2005 and its longer-term goal is to have the consolidated firms have \$5.0 billion in revenue by 2010. We are not currently aware, however, of how many companies have been consolidated or when the planned consolidation will be completed. Such consolidation could result in increased competition from companies that will be larger and have greater resources than us. Larger competitors enjoy the benefits of economies of scale and therefore may be able to afford to sell competing products at lower prices than Shanxi Weiqida. This will have an adverse effect on Shanxi Weiqida's profitability and the profitability of the combined company after the acquisition.

**Shanxi Weiqida does not have patent protection and is subject to substantial competition.**

Shanxi Weiqida competes in the generic drug segment of the pharmaceutical industry and has no patent protection for any of its products. Many pharmaceutical companies compete in the same market segment with

- 20 -



**Table of Contents**

similar products or products having comparable medicinal applications or therapeutic effects which may be used as direct substitutes for Shanxi Weiqida's products. Further, many of these competitors are larger and have greater resources and market presence than Shanxi Weiqida. Larger competitors may, as a result of economies of scale, be able to afford to sell competing products at lower prices than Shanxi Weiqida. This will have an adverse effect on Shanxi Weiqida's profitability as well as the profitability of the combined company after the acquisition. These competitors include Harbin Pharmaceutical Group Holding Co. Ltd, Shijiazhuang Pharmaceutical Group Co., Shandong Royoung Pharmaceutical South Pharmaceutical and Jiangxi Dangfeng Pharmaceutical. As a result of the lack of patent protection, competitors with potential substitutes could launch similar products in the market with their prices analogous with or lower than those manufactured and sold by Shanxi Weiqida. Further, the lack of patent protection could also attract an even greater number of competitors who believe they can develop products that are substantially similar to those of Oriental Wave at a lower cost.

**Expansion into overseas markets could pose additional risks.**

Shanxi Weiqida plans to expand sales of products from its Pharma and Chemical Divisions into overseas markets including developing and developed countries. These markets are untested for Shanxi Weiqida's products and Shanxi Weiqida, as well as the combined company after the acquisition, faces risks in expanding the business overseas, which include differences in regulatory product testing requirements, patent protection, taxation policy, legal systems and rules, marketing costs, fluctuations in currency exchange rates and changes in political and economic conditions.

**Chinese economic planning could negatively impact the pharmaceutical market in which our products are sold.**

China has a long history of a planned economy and is still subject to plans formulated by the Central Chinese government. In recent years, the Chinese government has introduced economic reforms aimed at transforming the Chinese economy from a planned economy into a market economy with socialist characteristics. These economic reforms allow greater utilization of market forces in the allocation of resources and greater autonomy for enterprises in their operations. However, many rules and regulations implemented by the Chinese government are still at an early stage of development and further refinements and amendments are necessary to enable the economic system to develop into a more market oriented form. No assurance can be given that any change in economic conditions as a result of the economic reform and macroeconomic measures adopted by the Chinese government will have a positive impact on the Chinese economic development or its pharmaceutical sector, which is the market where our products are sold. At the same time, there can be no assurance that such measures will be consistent and effective or that we will benefit from or will be able to capitalize on all such reforms.

**Table of Contents**

**PROPOSAL 1 ISSUANCE OF SHARES IN  
CONNECTION WITH THE ACQUISITION OF ORIENTAL WAVE**

We have entered into a Shar