DRAGON PHARMACEUTICAL INC
Form 10QSB/A
September 27, 2005

U.S. Securities and Exchange
Commission Washington, D.C. 20549

Form 10-QSB/Amendment No. 1

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number 0-27937

DRAGON PHARMACEUTICAL INC.
(Exact name of small business issuer as specified in its charter)

Florida	65-0142474
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1055 West Hastings Street, Suite 1900
Vancouver, British Columbia
Canada V6E 2E9
(Address of principal executive offices)

(604) 669-8817 (Issuer's
telephone number)

(Former address if changed since last report)

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

Number of shares of common stock outstanding as of March 31, 2005: 62,878,004

Explanatory Note. Dragon Pharmaceutical is filing this amendment no.1 to its quarterly report for the quarter ended March 31, 2005 to restate Oriental Wave Holding Limited's financial statements for the year ended December 31, 2004 and Dragon's financial statements for the quarterly period ended March 31, 2005. After review of its accounting policies and applicable accounting pronouncements, Dragon believes that the reduction of a future retirement benefit obligation related to the acquisition of a land use right from an unrelated former state-owned enterprise in China by Oriental Wave in July 2003, should have been accounted for as a reduction to the recorded cost of the land use right instead of as a non-operating gain from extinguishment of debt, as previously disclosed in Oriental Wave's 2004 financial statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statement

DRAGON PHARMACEUTICAL INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

CONTENTS

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

ASSETS

	Note	
CURRENT ASSETS		
Cash and cash equivalents		$
Accounts receivable, net of allowances	2	
Inventories, net	3	
Value added tax receivable		
Prepaid expenses		
Total Current Assets		

PROPERTY AND EQUIPMENT, NET	4	
OTHER ASSETS		
Intangible assets, net	6	
Other receivables		
Investments -cost		

Total Other Assets		

TOTAL ASSETS		$
------------		====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable		$
Accrued retirement benefits	7	
Other payables and accrued liabilities	8	
Notes payable - short-term	9	
Due to related companies	11	

Total Current Liabilities		

LONG-TERM LIABILITIES		
Long term accounts payable	10	
Long term retirement benefits	7	
Notes payable - long-term	9	
Due to related companies	11	

Total Long-Term Liabilities		

TOTAL LIABILITIES		

COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Authorized: 200,000,000 common shares at par value of $0.001 each		
Issued and outstanding: 62,878,004 (December 31, 2004: 44,502,004) common shares		
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 state

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)

	Note		REST (NOT 2 (Unau
NET SALES	12	$	
COST OF SALES			
GROSS PROFIT			
OPERATING EXPENSES			
Selling expense			
General and administrative expenses			
Depreciation and amortization			
Total Operating Expenses			
INCOME FROM OPERATIONS			
OTHER INCOME (EXPENSE)			
Interest expense			
Other income			
Funds Released by Chinese Government Liquidator	13		
Other expense			
Total Other Income			
INCOME FROM OPERATIONS BEFORE TAXES			
INCOME TAX EXPENSE	1(M)		
NET INCOME			
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 financia

4

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIODS ENDED MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	RESTATED (NOTE 18) Unappropriated Retained Earnings	R (N App R E
Balance, December 31, 2003, adjusted for the effect of recapitalization of reverse acquisition (Note 5(B))	44,502,004	$ 44,502	$ 7,841,363	$ 6,054,864	$ 1
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
Balance, December 31, 2004	44,502,004	$ 44,502	13,983,002	-	7
Reverse acquisition (Note 5(B))	18,376,000	18,376	5,740,370	-	
Related party debt forgiveness	-	-	2,415,458	-	
Notes receivable - stockholders	-	-	-	-	
Net income for the three months ended March 31, 2005	-	-	-	1,240,756	
Balance, March 31, 2005 (Unaudited)	62,878,004	$ 62,878	$22,138,830	$ 1,240,756	$7,

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

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)

	RESTATED (NOTE 18) 2005
ASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 1,240,756
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	1,410,985
Allowance for doubtful accounts	12,610
Provision for excess and obsolete inventories	476,583
Funds Released by Chinese Government Liquidator (note 13)	(745,828)
Changes in operating assets and liabilities, net of effect of reverse acquisition (Note 5(B)), (increase) decrease in:	
Accounts receivable	(725,437)
Inventories	146,990
Value added tax receivable	162,443
Prepaid expenses	(142,364)
Other assets	(214,722)
Deposits	-
Increase (decrease) in:	
Accounts payable	90,780
Other payables and accrued expenses	160,585
Net Cash Provided By (Used In) Operating Activities	1,873,381
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(782,134)
Cash acquired in connection with reverse acquisition (Note 5(B))	2,103,481
Net Cash Provided By (Used In) Investing Activities	1,321,347
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from notes payable	603,865
Due to related companies	(2,946,138)
Due from stockholder	22,358
Net Cash Provided By (Used In) Financing Activities	(2,319,915)
NET INCREASE IN CASH AND CASH EQUIVALENTS	874,813
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	910,425
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,785,238
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the period for interest expense	$ 245,373
Cash paid during the period for income taxes	$ 166,495

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:
During March 2005, $2,415,459 of loans payable to an entity related to a director of the Company was converted into equity of the Company.

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

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

(A) Organization and Basis of Presentation

The Company was formed on August 22, 1989 as First Geneva Investments Inc. under the laws of the State of Florida. The Company changed its name to Dragon Pharmaceutical Inc. on August 31, 1998. Pursuant to a share exchange agreement, dated July 29, 1998, the Company acquired 100% of the issued and outstanding shares of Allwin Newtech Ltd. ("Allwin") by issuing 7,000,000 common shares of the Company. This transaction was accounted for as a reverse acquisition.

Allwin was incorporated under the laws of the British Virgin Islands on February 10, 1998. Pursuant to a Sino-Foreign Co-operative Company Contract, dated April 18, 1998, Allwin and a Chinese corporation formed a limited liability company under the Chinese law, named as Sanhe Kailong Bio-pharmaceutical Co., Ltd. ("Kailong"), located in Hebei Province, China. Allwin has a 95% interest in Kailong. Pursuant to another Sino-foreign Co-operative Company Contract, dated July 27, 1999, Allwin completed the acquisition of a 75% interest in Nanjing Huaxin Bio-pharmaceutical Co. Ltd. ("Huaxin"). In January 2002, the Company acquired the balance of Huaxin. Kailong is inactive and Huaxin is in the business of the production and sales of biopharmaceutical products in China. Allwin Biotrade Inc. ("Biotrade") was incorporated in the British Virgin Islands on June 6, 2000 for the purpose of marketing and distributing biopharmaceutical products outside China. Dragon Pharmaceuticals (Canada) Inc. ("Dragon Canada") was incorporated in British Columbia, Canada on September 15, 2000 for the purpose of researching and developing new biopharmaceutical products.

Pursuant to a share purchase agreement, dated June 11, 2004, the Company acquired 100% of the issued and outstanding shares of Oriental Wave Holding Limited ("Oriental Wave") by issuing 44,502,004 common shares of the Company. This transaction was completed on January 12, 2005 and has been accounted for as a reverse acquisition (See Note 5(B)).

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 was 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.

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries: Oriental Wave, Shanxi Weiqida, Allwin, Kailong, Huaxin, Biotrade and Dragon Canada. 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.

(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.

(E) Investments

During the twelve months ended December 31, 2004, the Company made an 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 March 31, 2005. 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 March 31, 2005, 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

8

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

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. The land use rights are amortized over the term of the relevant rights of 50 years from the date of acquisition.

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.

(H) Fair Value of Financial Instruments

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 $981 and $1,159 for the three months ended March 31, 2005 and 2004, 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 three months ended March 31, 2005 and 2004 were $12,310 and $52,238, 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 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 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.

(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).

10

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

(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 three reportable segments, Chemical Division, Pharma Division and Biotech Division.

(Q) Earnings Per Share

Income per share is computed using the weighted average number of shares outstanding during the period. The Company adopted SFAS No. 128, "Earnings per share". Diluted earnings per share, as determined using the treasury method, is equal to the basic income per share as common stock equivalents consisting of options to acquire 3,128,000 common shares that are outstanding at March 31, 2005 are not significantly dilutive, however, they may be dilutive in future.

(R) Reclassifications

Certain 2004 balances have been reclassified to conform to the 2005 presentation.

(S) Stock Based Compensation

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-based Compensation", as amended by SFAS No. 148 "Accounting for Stock-based Compensation - Transition and Disclosure - An amendment of SFAS No. 123". SFAS 123 encourages, but does not require, companies to adopt a fair value based method for determining expense related to stock-based compensation. The Company continues to account for stock-based compensation issued to employees and directors using the intrinsic value method as prescribed under Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related Interpretations.

(T) 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," and SFAS No. 153, "Exchanges of Non-monetary Assets - an amendment of APB Opinion No. 29" 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 ACCOUNTS RECEIVABLE

Accounts receivable at March 31, 2005 (unaudited) and December 31, 2004 consisted of the following:

	March 31, 2005 (Unaudited)	December 31, 2004
Trade and other receivables	$ 9,208,581	$ 6,799,872
Less: allowance for doubtful accounts	438,337	124,574
Accounts receivable, net	$ 8,770,244	$ 6,675,298

For the periods ended March 31, 2005 and 2004, the Company recorded an allowance for doubtful accounts of $12,610 and $182,500, respectively, in the Consolidated Statement of Operations.

NOTE 3 INVENTORIES

Inventories at March 31, 2005 (unaudited) and December 31, 2004 consisted of the following:

	March 31, 2005 (Unaudited)	December 31, 2004

Raw materials	$ 4,064,998	$ 4,287,604
Work-in-progress	10,855,610	10,994,088
Finished goods	2,720,670	2,302,073
	17,641,278	17,583,765
Less: provision for obsolescence and impairment	1,055,380	959,859
	$ 16,585,898	$ 16,623,906

For the periods ended March 31, 2005 and 2004, the Company recorded a provision for obsolete inventories of $476,583 and nil, respectively, in the Consolidated Statement of Operations.

12

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

NOTE 4 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at March 31, 2005 (unaudited) and December 31, 2004:

	March 31, 2005 (Unaudited) RESTATED (NOTE		
	Cost	Accumulated Depreciation	Ne V
Plant and equipment	$ 42,770,616	$ 4,384,223	$ 3
Land and buildings	18,556,072	458,634	1
Motor vehicles	737,560	164,687	
Furniture and office equipment	2,942,351	819,419	
Leasehold improvements	1,083,653	1,028,137	
Idle equipment	555,339	455,339	
Construction in progress	3,430,080	-	
	$ 70,075,671	$ 7,310,439	$ 6

	December 31, 2004 RESTATED (NOTE 18)		
	Cost	Accumulated Depreciation	Ne V
Plant and equipment	$ 41,154,014	$ 2,293,918	$ 3
Land and buildings	18,552,438	370,169	1
Motor vehicles	611,261	55,166	
Furniture and office equipment	2,499,188	392,511	
Construction in progress	2,691,179	-	
	$ 65,508,080	$ 3,111,764	$ 6

Depreciation expense for periods ended the March 31, 2005 and 2004 was $1,280,960 and $362,785 respectively.

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

NOTE 5 ACQUISITIONS

(A) Land Use Rights

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 Use Rights 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 maximum amount of the liabilities assumed on the closing date was $8,897,685 which approximates the appraised value of the Land Use Rights acquired. The Company has calculated the related asset value by computing the estimated fair value of the future expected payments to the remaining employees assuming an interest rate of 3% and has recorded the Land Use Rights at $3,332,907 (See Notes 7 and 14(D)). 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.

The cost of Land Use Rights as at March 31, 2005 and December 31, 2004 is as follows:

	RESTATED (NOTE 18) March 31, 2005	RESTATED (NOTE 18) December 31, 2004
Original Cost recorded	$ 3,332,907	$ 3,332,907
Less: reduction of future accrued retirement benefit	1,135,238	1,135,238
Cost of Land Use Rights	$ 2,197,669	$ 2,197,669

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

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

(B) Oriental Wave Holding Limited

The Company completed the acquisition of Oriental Wave on January 12, 2005 whereby the Company issued 44,502,004 common shares in exchange for all of the issued and outstanding shares of Oriental Wave. The transaction has been approved by the Company's shareholders and the regulatory authorities, who also approved an increase in the authorized share capital to 200,000,000 common shares.

This transaction resulted in the former shareholders of Oriental Wave owning 68.35% of the issued and outstanding shares of the combined entity at the close of the transaction. Accounting principles applicable to reverse acquisition has been applied to record the acquisition. Under this basis of accounting, Oriental Wave is the acquirer and, accordingly, the consolidated entity is considered to be a continuation of Oriental Wave with the net assets of the Company deemed to have been acquired and recorded at its fair market value. The Statement of operations includes the results of Oriental Wave for the entire period and those of the Company from January 13, 2005 (unaudited).

The net assets acquired were:

Cash and short term securities	$	2,103,481
Accounts receivable		1,382,119
Inventories		585,565
Prepaid and deposits		100,421
Total Current Assets		4,171,586
Fixed Assets		867,742
Intangible and other assets, net		2,349,222
Total Assets		7,388,550
Less accounts payables and accrued liabilities		(1,629,804)
Net assets acquired	$	5,758,746

A summarized statement of operations for the Company for the twelve days ended January 12, 2005 is as follows:

Sales	$	145,435
Gross Profit		109,059
Total operating expenses		166,881
Loss for the period	$	(57,822)

15

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

NOTE 6 INTANGIBLE ASSETS

The Company acquired $603,865 in licenses from a company related to a director with the balance being recorded pursuant to the reverse acquisition of Oriental Wave (Note 5(B)).

Intangible assets consist of the following as of March 31, 2005 and

December 31, 2004:

	March 31, 2005 (Unaudited)	December 31, 2004
Licenses	$ 2,951,814	$ 603,865
Less: accumulated amortization	301,121	171,096
	$ 2,650,693	$ 432,769

Amortization expense for the periods ended March 31, 2005 and 2004 was $130,025, and $15,096, respectively.

NOTE 7 ACCRUED RETIREMENT BENEFITS

During July 2003, the Company acquired land use rights and buildings from a government liquidator. The present value of accrued expected retirement benefits related to the land costs is recorded at March 31, 2005 and December 31, 2004 as follows:

	March 31, 2005 (Unaudited)
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 to be paid	2,376,762
	956,145
Less: current portion	114,432
	$ 841,713

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 5(A) and 14).

16

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

NOTE 8 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities at March 31, 2005 and December 31, 2004 consist of the following:

	March 31, 2005 (Unaudited)	December 31, 2004
Machinery and equipment payable	$ 6,023,275	$ 7,050,243

Accrued expenses	6,595,401	6,360,198
Value added tax payables	280,805	-
Income taxes payable	196,746	166,495
Other taxes payable	109,994	121,054
Deposits received from customers	3,910,851	4,007,173
	$ 17,117,072	$ 17,705,163

NOTE 9 NOTES PAYABLE

Balance at March 31, 2005 and December 31, 2004:

	March 31, 2005 (Unaudited)	De
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 8.874% per annum, guaranteed by a third party, due July 2005	603,865	
Note payable to a bank, interest rate of 6.138% per annum, guaranteed by a third party, due November 2005	3,623,188	3

17

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

Note payable to a bank, interest rate of 6.039% per annum, secured by leasehold land and fixed assets, due April 2005	-
Note payable to a bank, interest rate of 6.039% per annum, secured by leasehold land and fixed assets, due April 2006	1,811,594
Note payable to a bank, interest rate of 5.76% per annum, guaranteed by a third party, due November 2006	6,316,426
Note payable to a bank, interest rate of 6.039% per annum, secured by leasehold land and fixed assets, due April 2007	6,642,512
	19,804,348

Less current maturities	5,033,816
	$ 14,770,532

Maturities are as follows:

Fiscal year ended December 31,	
2005	
2006	
2007	
	$

NOTE 10 LONG TERM ACCOUNTS PAYABLE

Long term accounts payable balances at March 31, 2005 and 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:

	March 31, 2005 (Unaudited)
Settlement Arrangement	
Accounts payable due 2006	$ 21,904,603

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

NOTE 11 DUE TO RELATED PARTIES

The amounts due to related party at March 31, 2005 and December 31, 2004 are unsecured and non-interest bearing:

	March 31, 2005 (Unaudited)
Due to a company owned by a stockholder and director due March 2006	$ 402,199
Due to a company owned by a stockholder and director due March 2006	225,690
	627,889
Less: current maturities	627,899

$ -
=================

NOTE 12 SEGMENTS

The Company operates in three reportable segments, the Pharma Division, Chemical Division and Biotech 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 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 periods ended March 31, 2005 and 2004 and as of March 31, 2005 and December 31, 2004.

	Chemical Division	Pharma Division	Biot Divis
2005			
Three months ended March 31, 2005 (Unaudited)			
Sales	$ 5,704,033	$ 5,320,771	$ 80
Gross profit	34,425	2,508,222	66
Depreciation and amortization (RESTATED - NOTE 18)	1,057,587	153,804	19

As of March 31, 2005 (Unaudited)			
Total assets (RESTATED - NOTE 18)	66,103,360	23,962,434	6,08
Additions to long-lived assets	757,262	18,452	
Intangible assets	-	417,672	2,23
2004			
Three months ended March 31, 2004			
Sales	$ 849,785	$ 6,305,251	$
Gross profit	328,173	2,869,760	
Depreciation and amortization	234,781	143,100	
As of December 31, 2004			
Total assets (RESTATED - NOTE 18)	66,726,390	23,611,914	
Additions to long-lived assets	27,295,156	852,773	
Intangible assets	-	432,769	

NOTE 13 OTHER INCOME - Funds Released by Chinese Government Liquidator

In July 2003, the Company, through Shanxi Weiqida, acquired out of bankruptcy the Land Use Rights of a state-owned enterprise. (Please also refer to Note 5(A)) After entering into this transaction, the Company was approached by an unrelated state agency to administer certain benefits payable to former employees of the agency (the government liquidator) as the Company had already established an infrastructure to make payments to these employees for settlement of liabilities related to the transaction. As a result, during 2004, the Company received $1,751,208 from the government liquidator, for the settlement of human resources related expenses of the bankrupt enterprise. As well, during the first quarter of 2005, a separate municipal agency, the Datong Municipal Government, approved the transfer of a fund with a balance of $140,036 originally reserved for the employee housing welfare as part of the liquidation process of the state-owned enterprise. The two agencies, unrelated to the acquisition, allowed the Company to retain the cash balance of $745,828 as well as the reserve of $140,036 as payment for services provided by the Company. As a result, the Company recorded other income of $885,864 during the current period to reflect the above transactions.

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 $116,217 and $141,730 for the periods ended March 31, 2005 and 2004, 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 guaranteed bank loans to two suppliers in the amount of $181,000 (RMB1.5 million) due on August 11, 2005 and $2,415,000 (RMB20 million) due on July 16, 2005.

The Company has also issued a guarantee to a bank as security for loans to a third party vendor of $2,415,000 (RMB20 million) due on September 26, 2007 and $3,623,000 (RMB30 million) due on October 27, 2007. This vendor pledged assets totaling $8,484,000 (RMB70.2 million) to the Company for this guarantee.

(C) Capital Commitments

According to the Articles of Association of Shanxi Weiqida, the Company has to fulfill registered capital of $19,205,116 (RMB 159,018,360) within five years from December 16, 2003. As of March 31, 2005, the Company has fulfilled $14,656,174 (RMB 121,353,123) of registered capital requirement and has registered capital commitments of $4,548,942 (See Note 15(A)).

(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 March 31, 2005, the Company has rehired 651 former employees, 207 employees have retired and approximately 200 former employees remain unemployed. 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 5 & 7).

(E) Operating Leases

The Company has entered into operating lease agreements with respect to Huaxin's production plant in Nanjing, China for an amount of RMB 2,700,000 (US$326,217) per annum until June 11, 2009 and the Company's administrative offices in Vancouver for an amount escalating from CDN$200,000 to CDN$230,000 (US$127,000 to US$146,000) per annum until March 31, 2007. The

Company decided to close the facility in Nanjing, effective July 31, 2005, and build a new facility in Datong, China at the site of the manufacturing facilities of Oriental Wave. The Company has renegotiated the termination of its lease, without penalty, though the Company may be required to pay up to approximately RMB 600,000 ($72,500) relating to severance and benefit costs associated with the closure. Minimum payments required under the agreements are as follows:

2005	$ 247,989
2006	189,964
2007	47,844
Total	$485,797

(F) Cell Line Development

The Company has contracted with a European Institute of Biotechnology to develop a high yield proprietary cell line and production process technology for the Company. Product from this advanced technology will be used by the Company to enter the European market, once certain competitor's patents expire. The total cost of development will be $648,800 (EUROS 500,000) of which $387,600 (EUROS 300,000) remains unpaid at March 31, 2005.

NOTE 15 STOCKHOLDERS' EQUITY

(A) Capital Contribution (See note 14(C))

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

On February 22, 2005 Oriental Wave paid Shanxi Weiqida $198,682 towards its registered capital requirement under Chinese law

(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.

(C) Stock Options

The Company did not grant any options during the year ended December 31, 2004. During the period ended March 31, 2005, the Company granted options to its directors and employees to purchase 2,260,000 shares at a price of $1.18 per share (being the market price at the time), expiring January 12, 2010. Options to purchase 1,460,000 shares were exercisable immediately with 400,000 options becoming available January 12, 2006 and the balance of 400,000 options vesting on January 12, 2007.

The following summarizes stock option information for the period ended March 31, 2005:

	Shares	Wei Ex
Options outstanding at December 31, 2003	2,599,000	
Forfeited	(705,000)	
Exercised	(145,000)	
Options outstanding at December 31, 2004	1,749,000	
Granted	2,260,000	
Forfeited	(881,000)	
Options outstanding at March 31, 2005	3,128,000	

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.01 - $1.00	350,000	3.01	$ 0.68	325,000	$ 0.68
$1.01 - $2.00	2,478000	4.55	$ 1.23	1,678,000	$ 1.25
$3.01 - $4.00	300,000	0.62	$ 3.13	300,000	$ 3.13
	3,128,000	4.00	$ 1.35	2,303,000	$ 1.41

The Company accounts for its stock-based compensation plan in accordance with APB Opinion No. 25, under which no compensation is recognized in connection with options granted to employees and directors except if

options are granted with a strike price below fair value of the underlying stock. The Company adopted the disclosure requirements SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, the Company is required to calculate and present the pro forma effect of all awards granted. For disclosure purposes, the fair value of each option granted to an employee has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.5%, dividend yield 0%, volatility of 90%, and expected lives of approximately 0 to 5 years. The weighted average fair value of the options granted during the period was $0.69.

Based on the computed option values and the number of the options issued, had the Company recognized compensation expense, the following would have been its effect on the Company's net income:

	2005	2004
Net income for the period:		
- as reported	$1,240,756	$1,939,928
- pro-forma	$163,375	$1,939,928
Basic and diluted income per share:		
- as reported	$0.02	$0.04
- pro-forma	$0.00	$0.04

NOTE 16 RELATED PARTY TRANSACTIONS

See Notes 6 and 11.

NOTE 17 CONCENTRATIONS AND RISKS

During the three months ended March 31, 2005, 85% of the Company's revenues were derived from customers located in China and 99% of its assets are located in China. Comparatively, 100% of the Company's revenues during the three months ended March 31, 2004 were derived from customers located in China and 100% of its assets were located in China.

NOTE 18 RESTATEMENT

Oriental Wave determined that the extinguishment of the Accrued Retirement Benefit that occurred in 2004 should have been accounted for as a reduction of the Land Use Rights acquired by $1,135,238 rather than as a gain as previously recorded. The Company has restated the financial statements to correct for this treatment as though the error was corrected as of June 30, 2004, for all reductions in the Accrued Retirement Benefits that occurred throughout 2004, as if they were known of at that time.

24

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004

This reduction in Land Use Rights also resulted in a reduction of the depreciation expense in subsequent periods and will do so in the future. The changes to the financial statements are as follows:

	As at March 31, 2005		As at
	Restated	Previously Reported	Restate
Current assets	$28,295,393	$28,295,393	$25,283,30
Property and equipment	62,765,232	63,883,442	62,396,31
Other assets	5,091,334	5,091,334	2,658,68
Total assets	$96,151,959	$97,270,169	$90,338,30
Liabilities	$65,176,854	$65,176,854	$68,800,51
Share capital	22,201,708	22,201,708	14,027,50
Retained earnings	8,803,188	9,921,398	7,562,43
Due from shareholder	(29,791)	(29,791)	(52,149
Total equity	30,975,105	32,093,315	21,537,78
Total liabilities and equity	$96,151,959	$97,270,169	$90,338,30

Three months ended March 31, 2005	
Restated	Previously Reported

Net Sales	$ 11,828,663	$11,828,66
Cost of sales	8,619,484	8,619,48
Gross profit	3,209,179	3,209,17
Operating expenses	2,392,040	2,397,71
Income from operations	817,139	811,46
Other income (expenses)	620,363	620,36
Income before taxes	1,437,502	1,431,82
Income tax expense	196,746	196,74
Net income	$1,240,756	$ 1,235,08
Net Income per share	$ 0.02	$ 0.0

25

Item 6. Exhibits.

(a) Exhibits.

Exhibit No.

31.1 Certification by the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.

31.2 Certification by the Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.

32 Certification by the Principal Executive and Financial Officers Pursuant to Section 906 of the Sarbanes-Oxley Act.

26

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment no. to report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

DRAGON PHARMACEUTICAL INC.
(registrant)

Dated: September 23, 2005

/s/ Garry Wong

Garry Wong
Chief Financial Officer