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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K/A

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2009

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to .

Commission File Number 001-34661

Dehaier Medical Systems Limited

(Exact name of registrant as specified in its charter)

British Virgin Islands	Not Applicable
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

Dehaier Medical Systems Limited
Room 908, East Plaza
No. 15 West 4th Ring North Road
Haidian District, Beijing 100195
People's Republic of China
(Address of principal executive offices and zip code)

(8610) 5166-0080

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, $0.001 par value per share	**NASDAQ Capital Market**

Securities registered under Section 12(g) of the Exchange Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.45 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the ordinary shares, $0.002731 par value per share ("Shares"), of the registrant held by non-affiliates on June 30, 2009 was $0, as there were no Shares held by non-affiliates on such date, and the registrant's Shares were not then publicly traded.

The Company is authorized to issue 18,307,038 Shares. As of the date of this report, the Company has issued and outstanding 3,000,000 Shares.

DOCUMENTS INCORPORATED BY REFERENCE

This Form 10-K incorporates the registration statement filed with the Commission on November 12, 2009, as amended (file no. 333-163041) (the Registration Statement and prospectus contained therein (the "IPO Prospectus"). The Registration Statement and IPO Prospectus are incorporated by reference into Parts II and III of this Form 10-K.

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DEHAIER MEDICAL SYSTEMS LIMITED

FORM 10-K/A

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Explanatory Note

The purpose of this Annual Report on Form 10-K/A is to amend Part II, Item 8, and Part III, Item 15 of our Annual Report on Form 10-K for the period ended December 31, 2009, which was filed with the Securities and Exchange Commission (the "SEC") on March 31, 2010 (the "Original 10-K").

Part II, Item 8, and Part III, Item 15 of the Original 10-K have been restated in their entirety. In particular, the financial statements have been restated to reflect an understatement in the dilutive effect of convertible preferred shares at December 31, 2009 of 923,392 shares. This in turn resulted in the weighted average number of common shares outstanding at December 31, 2009 being understated by 923,392 shares and diluted earnings per share for the year ended December 31, 2009 being overstated by $0.4 per share. Except as stated herein, this Form 10-K/A does not reflect events occurring after the filing of the Original 10-K and no attempt has been made to modify or update other disclosures as presented in the Original 10-K. Accordingly, this Form 10-K/A should be read in conjunction with our filings with the SEC subsequent to the filing of the Original 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this annual report that constitute forward-looking statements. Forward-looking statements involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “we believe,” “we intend,” “may,” “should,” “could” and similar expressions. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances or achievements expressed or implied by the forward-looking statements.

Examples of forward-looking statements include:

- projections of revenue, earnings, capital structure and other financial items;
- statements of our plans and objectives;
- statements regarding the capabilities and capacities of our business operations;
- statements of expected future economic performance; and
- assumptions underlying statements regarding us or our business.

The ultimate correctness of these forward-looking statements depends upon a number of known and unknown risks and events. Many factors could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Consequently, you should not place undue reliance on these forward-looking statements.

The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update this forward-looking information. Nonetheless, the Company reserves the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this Report. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

PART II

Item 8. Financial Statements and Supplementary Data.

The Company's financial statements and the related notes, together with the report of Friedman LLP are set forth following the signature pages of this report.

PART III

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed herewith:

Exhibit Number	Document
3(i).1	Third Amended and Restated Articles of Association of the Registrant (1)
3(ii).1	Third Amended and Restated Memorandum of Association of the Registrant (1)
4.1	Specimen Share Certificate (1)
10.1	Form of Share Option Plan(1)
10.2	Make Good Escrow Agreement(1)
10.3	Translation of lease agreement for Product Center dated September 23, 2008(1)
10.4	Translation of lease agreement for Principal Executive Office dated December 21, 2009, effective January 1, 2010(1)
10.5	Distribution agreement with IMD(1)
10.6	Distribution agreement with Timesco(1)
10.7	Translation of distribution agreement with JMS(1)
10.8	Distribution agreement with ResMed(1)
10.9	Translation of form of independent distributor agreement(1)
10.1	Translation of letter of credit agreement with ICBC(1)
10.11	Translation of Executive Officer Employment Agreement for Ping Chen(1)
10.12	Translation of Executive Officer Employment Agreement for Weibing Yang(1)
10.13	Translation of Executive Officer Employment Agreement for Zheng Liu(1)
10.14	Translation of Executive Officer Employment Agreement for Yong Wang(1)
10.15	Translation of Form of Purchase Agreement with Poverty Aid Office(1)
10.16	Translation of Production Agreement with Friend of Health (Chuzhou) Medical Technology Co., Ltd.(1)
10.17	Translation of Guarantee Contract between Ping Chen and ICBC(1)
10.18	Mortgage Contract between ICBC and BTL(1)

10.19	Indemnification and Guarantee Contract between Ping Chen and BTL(1)
10.2	Description of oral loan contract between BTL and BDL(1)
10.21	Translation of approval dated November 17, 2009 to change ICBC loan repayment schedule(1)
10.22	Loss Absorption Agreement between BDL, BTL and shareholders of BTL(1)
10.23	Translation of approval dated March 18, 2010 to change ICBC loan repayment schedule(1)
21.1	Subsidiaries of the Registrant (1)
31.1	Certifications pursuant to Rule 13a-14(a) or 15(d)-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (2)
31.2	Certifications pursuant to Rule 13a-14(a) or 15(d)-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (2)
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2)
32.2	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (2)
99.1	Code of Business Conduct and Ethics (1)
99.2	Audit Committee Charter (3)

(1) Incorporated by reference to the registrant’s registration statement on Form S-1, File no. 333-163041, filed on November 12, 2009, as amended.

(2) Filed herewith.

(3) Incorporated by reference to the registrant’s annual report on Form 10-K, filed on March 31, 2010.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEHAIER MEDICAL SYSTEMS LIMITED

December 10, 2010

By: /s/ ZHENG (RITA) LIU

Zheng (Rita) Liu

Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Act of 1933, as amended, this report has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ PING CHEN **Ping Chen**	Chief Executive Officer and Director (Principal Executive Officer)	December 10, 2010
/s/ ZHENG (RITA) LIU **Zheng (Rita) Liu**	Chief Financial Officer (Principal Accounting and Financial Officer) and Director	December 10, 2010
Yunxiang (Phil) Fan	Director	
Jimin (Peter) Zhuo	Director	
/s/ BIN QIU **Bin Qiu**	Director	December 10, 2010

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DEHAIER MEDICAL SYSTEMS LIMITED AND AFFILIATE

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FRIEDMAN LLP
ACCOUNTANTS AND ADVISORS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Dehaier Medical Systems Limited

We have audited the accompanying consolidated balance sheets of Dehaier Medical Systems Limited and Affiliate as of December 31, 2009 and 2008, and the consolidated related statements of operations, cash flows and shareholders' equity for the years then ended. Dehaier Medical Systems Limited and Affiliate management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dehaier Medical Systems Limited and Affiliate as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, New York
March 31, 2010, except for note 2, as to which date is December 10, 2010

1700 BROADWAY, NEW YORK, NY 10019 T 212.842.7000 F 212.842.7001
OFFICES IN NEW YORK CITY | NEW JERSEY | LONG ISLAND AND AN INDEPENDENT MEMBER FIR

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DEHAIER MEDICAL SYSTEMS LIMITED AND AFFILIATE

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	**2008**
	US$	**US$**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	1,151,721	282,603
Accounts receivable, less allowance for doubtful accounts of $ 102,939 and $ 141,926	6,891,291	5,416,702
Other receivables	1,499,111	1,187,360
Prepaid expenses and other current assets	1,691,387	1,798,887
Inventory, net	2,326,126	1,575,228
Total current assets	13,559,636	10,260,780
Property and equipment, net	2,862,625	2,196,127
Intangible assets, net	—	36,525
Tax receivable	1,362,372	552,968
Total assets	17,784,633	13,046,400
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	1,464,770	1,465,740
Accounts payable	93,770	74,320
Advances from customers	174,253	230,394
Accrued expenses and other current liabilities	336,412	250,839
Taxes payable	4,993,387	3,052,137
Warranty obligation	178,755	158,065
Due to officer	3,861	969
Total current liabilities	7,245,208	5,232,464
Commitments and contingency		
Shareholders' equity		
Preferred Stock Series A, $0.01 par value, 120,000 shares authorized, 120,000 shares issued and outstanding (liquidation value of $1,200,000)	—	1,200
Preferred Stock Series B, $0.01 par value, 380,000 shares authorized, 182,635 shares issued and outstanding (liquidation	—	1,826

value of $2,000,000)		
Common stock, $0.002731 par value, 18,307,038 shares authorized, 3,000,000 and 1,891,930 shares outstanding as of December 31, 2009 and 2008, respectively*	8,193	5,167
Additional paid-in capital	3,196,974	3,196,974
Retained earnings	5,298,742	2,624,771
Accumulated other comprehensive income	773,127	778,766
Total Dehaier Medical Systems Limited shareholders' equity	9,277,036	6,608,704
Non-controlling interest	1,262,389	1,205,232
Total shareholders' equity	10,539,425	7,813,936
Total liabilities and shareholders' equity	17,784,633	13,046,400

* The change in par value of common shares pursuant to the stock split was retroactively adjusted.

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

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DEHAIER MEDICAL SYSTEMS LIMITED AND AFFILIATE

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,	
	2009	**2008**
	US$	**US$**
Revenue	12,369,960	9,414,430
Cost of revenues	(7,510,718)	(5,931,087)
Gross profit	4,859,242	3,483,343
Service income	402,851	418,483
Service expense	(119,455)	(105,436)
General and administrative expense	(1,091,675)	(1,326,406)
Selling expense	(700,175)	(973,898)
Operating income	3,350,788	1,496,086
Financial expense (including interest expense of $ 85,665 and	(87,435)	(104,474)

$97,122)		
Other income	—	4,071
Income before provision for income taxes and non-controlling interest	3,263,353	1,395,683
Provision for income taxes	(531,461)	(415,332)
Net income	2,731,892	980,351
Non-controlling interest in income	(57,921)	(62,331)
Net income attributable to Dehaier Medical Systems Limited	2,673,971	918,020
Earnings per share		
-Basic	1.29	0.48
-Diluted	0.89	0.31
Weighted average number of common shares used in computation		
-Basic	2,076,608	1,891,930
-Diluted	3,000,000	3,000,000

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

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DEHAIER MEDICAL SYSTEMS LIMITED AND AFFILIATE

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Dehaier Medical Systems Limited											
	Common stock		**Preferred A**		**Preferred B**		**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive income**	**Comprehensive income**	**Non-controlling interest**	**Total**
	Shares	**US$**	**Shares**	**US$**	**Shares**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
Balance as of January	1,891,930	5,167	120,000	1,200	182,635	1,826	3,196,974	1,706,751	398,581		1,067,859	6,378,358

1, 2008												
Foreign currency translation									380,185	380,185	75,042	455,227
Net income								918,020		918,020	62,331	980,351
Comprehensive income										1,298,205		
Balance as of December 31, 2008	1,891,930	5,167	120,000	1,200	182,635	1,826	3,196,974	2,624,771	778,766		1,205,232	7,813,936
On October 31, 2009, the Company has converted all preferred shares, 1 to 1	302,635	3,026	-120,000	-1,200	-182,635	-1,826						

into common Shares												
Effect of 3.6614-for-1 split on 302,635 common shares converted on October 31, 2009	805,435											
Foreign currency translation									-5,639	-5,639	-764	-6,403
Net income								2,673,971		2,673,971	57,921	2,731,892
Comprehensive income										2,668,332		
Balance as of	3,000,000	8,193	—	—	—	—	3,196,974	5,298,742	773,127		1,262,389	10,539,425

Dec emb er 3 1, 2009

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

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DEHAIER MEDICAL SYSTEMS LIMITED AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2009	2008
	US$	US$
Operating Activities		
Net income	2,731,892	980,351
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	286,395	235,867
Provision for (recovery of) doubtful accounts	(45,588)	23,297
Provision for inventory obsolescence	52,989	—
Provision for warranty	20,690	59,102
Gain on sale of equipment	—	(3,324)
Changes in assets and liabilities:		
Increase in accounts receivable	(1,429,001)	(2,269,896)
Decrease (increase) in prepayments and other current assets	107,500	(1,072,813)
Increase in other receivables	(311,751)	(648,474)
Decrease (increase) in inventory	(803,887)	701,882
Increase in tax receivable	(809,404)	(198,896)
Increase in accounts payable	19,450	25,425
(Decrease) increase in advances from customers	(56,141)	70,854
Increase in accrued expenses and other current liabilities	85,573	26,531
Increase in taxes payable	1,941,250	1,267,130
Net cash provided by (used in) operating activities	1,789,967	(802,964)
Investing Activities		
Proceeds from sale of equipment	—	33,102

Capital expenditures and other additions	(917,419)	(708,580)
Proceeds from related parties	2,892	37,667
Net cash used in investing activities	(914,527)	(637,811)
Financing Activities		
Proceeds from bank loans	—	231,948
Net cash provided by financing activities	—	231,948
Effect of exchange rate fluctuations on cash and cash equivalents	(6,322)	348,078
Net increase (decrease) in cash and cash equivalents	869,118	(860,749)
Cash and cash equivalents at beginning of year	282,603	1,143,352
Cash and cash equivalents at end of year	1,151,721	282,603
Supplemental cash flow information		
Income tax paid	12,767	3,765
Interest paid	85,665	97,122

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

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DEHAIER MEDICAL SYSTEMS LIMITED AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Dehaier Medical Systems Limited (“Dehaier”) was incorporated in the British Virgin Islands in 2003 as a limited liability company. Dehaier distributes and provides after-sale services for medical equipment in China mainly through its majority-owned subsidiary Beijing Dehaier Medical Technology Co. Limited (“BDL”) and its affiliate Beijing Dehaier Technology Limited (“BTL”). On October 23, 2003, Dehaier established a wholly-owned subsidiary in Hong Kong, De-haier Medical System (Hong Kong) Limited (“DHK”), (collectively, the “Company”). Both BDL and BTL were incorporated in the People’s Republic of China (“PRC”). The Company distributes branded, proprietary medical equipment, such as sleep apnea machines, patient monitors, air compressors, and oxygen generators; moreover, standard product registration, product certification and quality management system have been established in the Company. ISO13485 industry standard has also already been passed. It also has the distribution rights for a number of international medical equipment suppliers for products including anesthesia equipment, patient monitors, mobile C-arm X-ray machines and other medical equipment accessories.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis of Consolidation

The consolidated financial statements include the accounts of Dehaier, BDL, its majority-owned subsidiary, and its wholly-owned subsidiary, DHK as well as BTL. All significant inter-company transactions and balances are eliminated in consolidation.

A group of shareholders, including the Chief Executive officer, holds more than 50% of the voting ownership interest of Dehaier, BDL and BTL. BTL is a variable interest entity, and BDL is the primary beneficiary. BTL owns a building which is pledged as collateral for BDL's bank loans. In exchange, BDL loans money to BTL to finance its operations. BTL's primary operation is to provide repairs and transportation services to BDL's customers. Because of these arrangements, BDL is the primary beneficiary of BTL, as the entity that is most closely associated with BTL. Dehaier has included BTL in its consolidated financial statements through the consolidation with BDL since December 31, 2006. Dehaier, BDL and BTL were under common control until October 31, 2009, when each share of preferred share was converted into a common share. (see note 13). Because the chief executive officer held more than 50% of the voting ownership interest of each of Dehaier, BDL, BTL and DHK at December 31, 2006, the Company initially measured the assets, liabilities and noncontrolling interest of the variable interest entity at the amounts at which they were carried in the accounts of the reporting entity that controls the variable interest entity pursuant to FASB ASC 810-10.

On October 31, 2009, BDL reconsidered whether it is the primary beneficiary of BTL when Dehaier's preferred stock was converted into common shares. While such conversion dilutes Mr. Chen's interest in BDL such that BDL and BTL are not under common control after October 31, 2009, BDL still has the obligation to absorb the expected losses of BTL. BTL is still a variable interest entity because all of its activities either involve or are conducted on behalf of the reporting enterprise and its related parties. BDL is BTL's only customer referral source. On March 3, 2010, BDL entered into a Loss Absorption Agreement memorializing the understanding that BDL would continue to loan money to BTL as needed to fund its working capital such that BDL would absorb BTL's losses.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The carrying amount and classification of BTL's assets and liabilities included in the Consolidated Balance Sheets are as follows:

	December 31,

	2009	2008
	US$	US$
Total current assets	240,195	392,431
Total assets	1,330,139	1,573,073
Total current liabilities	67,750	367,842
Total liabilities	67,750	367,842

The accounts of BTL are consolidated in the accompanying financial statements pursuant to Accounting Standards Codification (“ASC”) 810-10, “Consolidation”. As a VIE, BTL’s revenues are included in the Company’s service income, and its income from operations is consolidated with the Company’s. Because of the arrangements, the Company had a pecuniary interest in BTL that requires consolidation of the Company’s and BTL’s financial statements.

On January 1, 2009, the Company adopted the transition rules within ASC 810-10-65, regarding accounting and reporting standards for the non-controlling interest in a subsidiary.

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are adjusted to reflect actual experience when necessary. Significant accounting estimates reflected in the Company’s consolidated financial statements include revenue recognition, allowance for doubtful accounts, inventory obsolescence, warranty obligation, impairment of long-lived assets and useful lives of property and equipment. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased. The Company maintains uninsured cash and cash equivalents with various financial institutions mainly in the PRC and Hong Kong.

Accounts Receivable

Accounts receivable are recorded at net realizable value. Accounts receivable terms typically are net 60-180 days from the end of the month in which the services were provided. The company generally does not require collateral or other security to support accounts receivable. An allowance, if required, is based on a combination of historical experience, aging analysis, and an evaluation of the collectibility of specific accounts. Receivables are considered past due after 3 years and written off.

Advances to Suppliers and Advances from Customers

The Company, as is the common practice in the PRC, will often pay advance payments to suppliers for unassembled parts, or receive advance payments from customers. Advances to suppliers were $1,511,540 and $1,798,887 as of December 31, 2009 and 2008, respectively. Advances from customers were $174,253 and $230,394 as of December 31, 2009 and 2008, respectively.

DEHAIER MEDICAL SYSTEMS LIMITED AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated financial statements for current assets and current liabilities approximate fair value due to the short-term nature of these financial instruments.

In 2008, the Company adopted ASC 820-10, "Fair Value Measurements and Disclosures", which establishes a single authoritative definition of fair value and a framework for measuring fair value and expands disclosure of fair value measurements for both financial and nonfinancial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost). For purposes of ASC 820-10-15, nonfinancial assets and nonfinancial liabilities would include all assets and liabilities other than those meeting the definition of a financial asset or financial liability as defined in ASC 820-10-15-15-1A. Management elected the deferral option available for one year for nonfinancial assets and liabilities as permitted by ASC-820-10.

On August 26, 2009, the FASB issued Accounting Standard Update (ASU) 2009-05, Measuring Liabilities at Fair Value, to clarify how entities should estimate the fair value of liabilities under the FASB ASC Topic 820, Fair Value Measurements and Disclosures. The amendments in ASU 2009-05 reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. Therefore, preparers, investors, and other users of financial statements will have a better understanding of how the fair value of liabilities was measured, helping to improve consistency in the application of Topic 820. The FASB issued ASU 2009-05 as a result of expressed concern that there may be a lack of observable market information to measure the fair value of a liability. For example, in the hypothetical transfer of an asset subject to a restriction there will be no observable data available to measure the liability because it is restricted from being transferred. This guidance is effective for the first reporting period (including interim periods) beginning after issuance.

Also in 2008, the Company decided not to elect the fair value option prescribed by Financial Accounting Standards Board ("FASB") ASC-825-10 for its financial assets and liabilities.

Inventory

Inventory is stated at the lower of cost or market and consists of assembled and unassembled parts relating to medical devices. The Company reviews its inventory annually for possible obsolete goods and to determine if any reserves are necessary. At December 31, 2008, no reserve for obsolescence was considered necessary. At December 31, 2009, the reserve for obsolescence was $52,989, and the provision is included in the operating expenses in the consolidated statements of operations.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives:

Leasehold improvements	Shorter of the useful lives or the lease term
Building and land use rights	20-40 years
Machinery and equipment	10-15 years
Furniture and office equipment	5 years
Motor vehicles	5 years

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Intangible Assets

Intangible assets consist primarily of purchased technology rights with finite lives and are stated at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of these assets of 6 to 10 years and recognized in cost of revenues.

The Company reviews intangible assets for impairment in accordance with the provisions of ASC 360-10, “Impairment or Disposal of Long-Lived Assets.”

There was no impairment of intangible assets at the balance sheet dates. Although management believes the assumptions used in testing for impairment are reasonable, changes in any one of the assumptions could produce a significantly different result.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the asset and eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair market value of the asset, is recognized. Management has determined no impairment exists at the balance sheet dates.

Revenue Recognition

The Company recognizes revenues when all the followings conditions have been satisfied:

* Persuasive evidence of an arrangement exists;

* Delivery and/or installation has occurred (e.g., risks and rewards of ownership have passed);

* The sales price is fixed or determinable; and,

* Collectibility is reasonably assured.

All revenues are based on firm customer orders with fixed terms and conditions. Because the products are assembled to the customers' specification, there is no right of return. The Company does not provide its customers with price protection or cash rebates. For products which include software, the software is an off-the-shelf package and an integral part of the products being delivered. The Company does not provide any significant post-sale customer support services and does not provide customers with upgrades. The software is incidental to the product as a whole. For products that do not require installation, revenues are recognized when the products are delivered. For products that require installation, revenues are recognized when the installation is completed.

For all service income, the Company recognizes the revenue upon the completion of the repairs when the equipment has been returned to and accepted by the customers.

In the PRC, value added tax (VAT) of 17% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities.

Cost of Revenues

Cost of revenues primarily includes wages to assemble parts and the costs of unassembled parts, handling charges, and other expenses associated with the assembly and distribution of product.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Service income and expense

Service income and expense represents activities related to repair and transportation service provided for the customers by BTL.

Foreign Currency Translation

The accounts of Dehaier, BDL, BTL and DHK are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Dehaier's functional currency is US dollars ("$") while BDL and BTL maintain their accounts in Renminbi ("RMB") and DHK maintains its currency in Hong Kong dollars ("HKD"). The accompanying consolidated financial statements are presented in US dollars. Foreign currency transactions are translated into US dollars using fixed exchange rates in effect at the time of the transaction. Generally foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the consolidated statements of operations. The foreign currency accounts of DHK, BDL and BTL are translated in accordance with ASC 830-10, "Foreign Currency Matters". Assets and liabilities are translated at current exchange rates quoted by the People's Bank of China at the balance sheet dates and revenues and expenses are translated at average exchange rates in effect during the periods. Resulting translation adjustments are recorded as other comprehensive income (loss) and accumulated as a separate component of equity in non-controlling interest.

Warranty Costs

The Company provides for the estimated cost of product warranties at the time revenue is recognized. Warranty costs are included in general and administrative expenses. The Company's warranty obligation is affected by product failure rates and material usage and service delivery costs incurred in correcting product failure. Should actual product failure rates, material usage or service delivery costs differ from the Company's estimates, the Company may be required to revise its estimated product warranty liability. The term of the product warranty is generally twelve months. The warranty obligation was $178,755, $158,065 at December 31, 2009 and 2008, respectively. Warranty expense for the years ended December 31, 2009 and 2008 was $120,587 and $150,382, respectively.

Research and Development Costs

Research and development costs relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. Research and development costs were $ 82,164 and $ 87,660 for the years ended December 31, 2009 and 2008, respectively.

Shipping and Handling Expenses

Shipping and handling expenses of $ 62,566 and $ 68,135 for the years ended December 31, 2009 and 2008 were included in the operating expenses in the consolidated statements of operations, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $19,962 and $52,677 for the years ended December 31, 2009 and 2008, respectively.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Earnings Per Share

The Company follows the provisions of ASC 260-10, "Earnings Per Share". Basic earnings per share is computed by dividing net income attributable to holders of common shares by the weighted average number of common shares outstanding during the years. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Convertible preferred shares are included in the computation of diluted earnings per share on an "if converted" basis, when the impact is dilutive.

The following table sets forth computation of basic and diluted weighted average share information:

	December 31,	
	2009	2008
Weighted average number of common shares outstanding	2,076,608	1,891,930
Dilutive effect of convertible preferred shares	923,392	1,108,070
Weighted average number of common shares outstanding, assuming dilution	3,000,000	3,000,000

Value Added Tax

The Company reports revenues net of PRC's value added tax for all the periods presented in the consolidated statements of operations.

Stock-Based Compensation

The Company follows the provisions of ASC 718-10, "Share-Based Payment Arrangement." On December 7, 2009, the Company's Board of Directors and shareholders have approved the creation of a share incentive plan to be implemented after the Company has completed its public offering. This plan will authorize the issuance of up to 10% of the number of shares outstanding after the Company has completed its public offering. Pursuant to the anticipated plan, the Company may issue options to purchase its common shares to employees and directors of the Company and its affiliates. The Company will fair value share-based awards to be granted under the new plan. Accordingly, compensation will be measured on the grant date using appropriate valuation models.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC 740-10, "Accounting for Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year; and, (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if, based on the weight of available positive and negative evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2009 and 2008, the Company was not required to record any deferred tax assets or liabilities.

ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken or expected to be taken on a tax return. Under ASC 740-10, a tax benefit from an uncertain tax position taken or expected to be taken may be recognized only if it is "more likely than not" that the position is sustainable upon examination, based on its technical merits. The tax benefit of a qualifying position under ASC 740-10 would equal the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all the relevant information. A liability (including interest and penalties, if applicable) is established in the financial statements to the extent a current benefit has been recognized on a tax return for matters that are considered contingent upon the outcome of an uncertain tax position. Related interest and penalties, if any, are included as components of income tax expense and income taxes payable. The Company is awaiting resolution of certain complex tax issues and has not yet filed its 2008 and 2009 Value Added Tax ("VAT") tax returns for some of its customers. However, all the potential VAT liabilities on these VAT returns were accrued and included in the accompanying consolidated financial statements.

The implementation of ASC 740-10 resulted in no material liability for unrecognized tax benefits and no material change to the beginning retained earnings of the Company. As of December 31, 2009 and 2008, the Company did not have a liability for any unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the statement of operations. During the years ended December 31, 2009 and 2008, the Company did not incur any interest or penalties.

Income tax returns for the year prior to 2005 are no longer subject to examination by tax authorities.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Recently Issued Accounting Standards

In June 2009, the FASB issued a statement establishing the FASB Accounting Standards Codification as the source of the authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date of this statement, all then existing non-SEC accounting and reporting standards were superseded.

In June 2009, the FASB issued an amendment to its Interpretation, "Consolidation of Variable Interest Entities." The statement requires an entity to perform an analysis to determine whether the entity's variable interest give it a controlling financial interest in a variable interest entity by rationalizing characteristics that would give it power to direct the activities of a variable interest entity and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The statement is effective for years beginning after November 15, 2009 and is not expected to have a material effect on the Company's consolidated financial statements.

On January 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements.* The ASU reports on new disclosure requirements — and clarifications of existing requirements — under Accounting Standards Codification (ASC) Subtopic 820-10 (originally issued as FAS 157). The new disclosure requirements apply to interim and annual reporting periods beginning after Dec. 15, 2009, with one exception: The new rules regarding purchases, sales, issuances and settlements associated with Level 3 measurements will be effective for fiscal years beginning after Dec. 15, 2010, and for interim periods within those fiscal years. The adoption of this accounting standard is not expected to have a material effect on the Company's consolidated financial statements.

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3. OTHER RECEIVABLES

Other receivables consist of the following:

	December 31, 2009	December 31, 2008
	US$	US$
Due from suppliers	111,489	251,697
Deposits for ongoing contracts	1,352,056	874,260
Staff advance	35,566	61,403
	1,499,111	1,187,360

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31, 2009	December 31, 2008
	US$	US$
Advances to suppliers	358,607	505,140

Prepayment for equipment purchase	1,152,933	1,293,747
Initial public offering expenses	102,500	—
Other prepaid expenses	77,347	—
	1,691,387	1,798,887

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5. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	December 31, 2009	December 31, 2008
	US$	US$
Buildings	1,215,349	1,227,641
Land use rights	284,751	284,940
Plant and machinery	1,947,512	1,040,771
Automobiles	56,142	56,428
Office and computer equipment	290,183	267,125
	3,793,937	2,876,905
Less: Accumulated depreciation and amortization	(931,312)	(680,778)
Property and equipment, net	2,862,625	2,196,127

At December 31, 2009 and 2008, BTL's building was pledged to a bank as collateral for short-term borrowings of RMB10,000,000 (US$1,464,770), RMB10,000,000((US$1,465,740), respectively (see Note 8).

Depreciation and amortization expense was $249,871 and $235,867, for the years ended December 31, 2009 and 2008, respectively.

Land Use Rights

There is no private ownership of land in China. Land is owned by the government and the government grants land use rights for specified terms. The Company's land use rights are reported at the purchase price (RMB1,944,000 in 2002).

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DEHAIER MEDICAL SYSTEMS LIMITED AND AFFILIATE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. INTANGIBLE ASSETS, NET

Intangible assets consist of the following:

	December 31, 2009	December 31, 2008
	US$	US$
Technology rights	182,623	182,623
Less: accumulated amortization	(182,623)	(146,098)
Intangible assets, net	—	36,525

Intangible assets represent technology rights relating to the anesthesia machines under the brand of Kontron. Amortization expense for each of the years ended December 31, 2009 and 2008 was $36,525.

7. TAX RECEIVABLE

Tax receivable consists of the following:

	December 31, 2009	December 31, 2008
	US$	US$
Value added tax receivable	1,362,372	552,968

Enterprises or individuals who sell commodities, engage in repair and maintenance or import and export goods in the PRC are subject to a value added tax in accordance with Chinese laws. The value added tax standard rate is 17% of the gross sales price. A credit is available whereby VAT paid on the purchases of unassembled medical components of the Company’s product used in contract and production can be used to offset the VAT due on sales of the product.

The tax receivable as of December 31, 2009 and 2008 was $1,362,372, $552,968, respectively, which represents VAT credit on the purchased products. These amounts can be used to offset the VAT due on sales of the finished product.

8. SHORT-TERM BORROWINGS

The Company has a line of credit for RMB10,000,000 with a commercial bank in China to finance its working capital. The credit line bears interest at a variable rate and is renewed annually on May 18th. Average interest rates for the years ended December 31, 2009 and 2008 were 5.58% and 7.84%, respectively. Pursuant to the terms of the agreement, the line of credit is secured by BTL's building (see note 5) and guaranteed by BDL and an officer of the Company.

On June 2, 2009, the bank renewed the Company's credit line with payments due on November 20, 2009, March 20, 2010 and May 20, 2010 for RMB2,000,000, RMB3,000,000 and RMB5,000,000, respectively. On November 17, 2009, the bank and the Company agreed to a new payment schedule whereby on January 20, 2010, March 20, 2010 and May 20, 2010, RMB 1,000,000, RMB 4,000,000 and RMB 5,000,000 are due, respectively. On January 20, 2010, RMB 1,000,000 was paid.

On March 16, 2010, the bank and the Company negotiated (and on March 18, 2010 the bank and the Company executed) an amendment to the repayment schedule whereby on March 20, 2010 and May 20, 2010, RMB 3,000,000 and RMB 6,000,000 are due, respectively. On March 18, 2010, RMB 3,000,000 was paid.

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9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other payables consist of the following:

	December 31, 2009	December 31, 2008
	US$	US$
Accrued salaries and social welfare	167,684	153,952
Accrued expenses	19,042	19,054
Other payables, non-trade vendors	49,686	77,833
Deposit from customer	100,000	—
	336,412	250,839

10. TAXES PAYABLE

Taxes payable consists of the following:

	December 31, 2009	December 31, 2008
	US$	US$
Value added tax	3,966,007	2,542,227
Enterprise income tax	1,023,058	504,445
Employee withholding taxes	3,226	3,777
Business tax	943	1,174

City construction tax	153	514
	4,993,387	3,052,137

11. NON-CONTROLLING INTEREST

Non-controlling interest consists of the following:

	December 31, 2009	December 31, 2008
	US$	US$
Original paid-in capital	384,211	384,211
Retained Earnings	700,861	642,940
Accumulated other comprehensive income	177,317	178,081
	1,262,389	1,205,232

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12. COMMITMENTS AND CONTINGENCY

Leases

The lease commitments are for office premises and a warehouse facility, all of which are classified as operating leases. These non-cancelable leases have lease terms for one year. Future minimum lease payments under these leases at December 31, 2009, are as follows:

Year Ending December 31,	US$
2010	45,078

Rent expense for the year ended December 31, 2009 and 2008 was $ 56,788 and $ 32,011, respectively.

Rent expense paid to the spouse of the chief executive officer for the years ended December 31, 2009 and 2008 was $ 27,375 and $ 0， respectively.

On December 15, 2009, BTL agreed to lease its building to BDL free of any charges through September 24, 2010.

Employment Contracts

Under the PRC labor law, all employees have signed employment contracts with the Company. Management employees have employment contracts with terms up to three years and non-management employees have a one year employment contract renewable on an annual basis.

Contingency

The Labor Contract Law of the People's Republic of China, effective as of January 1, 2008, requires employers to assure the liability of the severance payments if employees are terminated and have been working for the employers for at least two years prior to January 1, 2008. The Company has estimated its possible severance payments of approximately $124,000 and $88,000 as of December 31, 2009 and 2008, respectively, which have not been reflected in its consolidated financial statements.

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13. SHAREHOLDERS' EQUITY

Common Shares

At December 31, 2008, the Company's Memorandum and Articles of Association authorized share capital of US $50,000 comprised of 4,500,000 common shares and 500,000 Preferred Shares (120,000 shares of Series A Preferred Shares and 380,000 shares of Series B Preferred Shares) with US$0.01 par value.

On October 31, 2009, the board of directors approved a 3.6614-for-1 stock split of the Company's common shares. Accordingly, all common share and per share information in the accompanying consolidated financial statements give retroactive effect to the stock split. Prior to the stock split, there were 516,722 common shares issued and outstanding at December 31, 2008. The authorized share capital remains at US$50,000.

On March 22, 2010, the founders of the Company placed an aggregate of 600,000 common shares of the Company into escrow. That being equal to 40% of the maximum number of shares to be sold in an initial public offering ("IPO") until such time as the Company files its Form 10-K with the Securities and Exchange Commission for the year ending December 31, 2010, or the termination of the IPO without closing, if earlier. The shares in escrow (Make-Good Shares) will be accounted for as an element in the IPO and the Company will not recognize any compensation expense upon the return of such Make-Good Shares to the holders. To the extent the Company's earnings per share for the year ending December 31, 2010 are less than $.80, the Company shall redeem, pro rata, such shares. Alternatively, if the closing price of the common shares is equal to at least 2.5 times of the IPO offering price for five trading days in any ten trading day period, then the Make-Good Shares will be returned to the founders. These shares are included as part of the calculation of the basic and diluted earning per share for all the periods presented in the accompanying consolidated financial statements.

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13. SHAREHOLDERS' EQUITY- continued

Convertible Preferred Shares

In October 2003, the Company issued 120,000 Series A convertible preferred shares ("Series A Preferred Shares") for total proceeds of $1,200,000.

During 2007, the Company issued in aggregate 182,635 Series B convertible preferred shares ("Series B Preferred Shares") for total proceeds of $2,000,000.

Series A Preferred Shares and Series B Preferred Shares are collectively referred to as the "Preferred Shares".

Preferred Shares have priority over the common stock "Ordinary Shares". Certain rights, preferences and privileges of the Preferred Shares are listed below:

The holders of Preferred Shares are entitled to receive noncumulative dividends, when and if declared by the board of directors. Dividends are not mandatory and shall not accrue.

Preferred Shares Series A and B have a liquidation preference of $10 and $10.95074 per share, respectively.

The holders of Preferred Shares are entitled to one vote for each share of common stock the Preferred Shares could be converted to.

Preferred Shares are non-redeemable.

On October 31, 2009, each share of preferred stock was converted into common shares on a 1-to-1 basis. In addition, all preferred shares in authorized capital on October 31, 2009, were re-designated as common shares.

Following is a pro-forma earnings per share calculation for the year ended December 31, 2008 giving effect to the conversion of all the outstanding preferred shares and the effect of the stock split:

	December 31, 2008
	US$
Basic earnings per share	0.31

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14. INCOME TAXES

British Virgin Islands

Dehaier is a tax-exempt company incorporated in the British Virgin Islands. BDL and BTL were incorporated in the PRC and are governed by the PRC laws.

Hong Kong

DHK is subject to Hong Kong profits tax at a rate of 17.5% on its assessable profits. No Hong Kong profits tax has been provided as the Company did not have any taxable profit that was earned in or derived from Hong Kong during the years presented.

PRC

BDL is entitled to a preferential tax rate of 15% as a "high technology" company, and is entitled to a three-year exemption from income taxes commencing in 2004, followed by a 50% reduction in tax rates for the succeeding three years.

In May 2008, PRC issued new standards for "high technology" companies and required the Company to update their certification. Dehaier did not get the updated certification in 2008. On May 18, 2009, the State Tax of the Beijing Changping District issued "the Notice to Tax Affairs" (Tax Notice [2009]7013) to cancel "Approved to relief the Enterprise Income Tax" act. The tax rate for BDL is 25% in 2008.

PRC government grants a preferential income tax rate of 15% to government-certified high technology companies, and under the new standard the period of validity for the certification of high technology companies is three years. In 2009, BDL updated its certification for "high technology" company. Therefore, BDL used a 15% income tax rate to calculate the income tax expense for year ended December 31 2009.

BTL is entitled to a preferential tax rate of 15% as a "high technology" company, and is entitled to a three-year exemption from income taxes commencing in 2002, followed by a 50% reduction in tax rates for the succeeding three years. The tax rate for BTL is 25% in 2008 and 2009.

A reconciliation of income tax expense and the amount computed by applying the statutory income tax rate to the income before income tax provision is as follows:

	Year Ended December 31	
	2009	**2008**
	US$	**US$**
Tax computed at statutory rate	531,461	415,332
Increase in income taxes resulting from temporary differences	—	—
Permanent differences	—	—
	531,461	415,332

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15. RELATED PARTY TRANSACTIONS

At December 31 2008, the amount due to an officer was $969 representing expenses paid by an officer of the Company. This amount was repaid in the first six months of 2009.

At December 31 2009, the amount due to an officer was $3,861 representing expenses paid by an officer of the Company.

16. CONCENTRATIONS

Major Customers

For the years ended December 31, 2009 and 2008, approximately 7% and 11%, respectively, of the Company's revenues were to one customer.

At December 31, 2009 and 2008, receivables from four customers were approximately 9%, 8%, 8%, 7% and 17%, 13%, 11%, 10%, respectively.

Revenues

For the years ended December 31, 2009 and 2008, the Company's three top selling products accounted, in the aggregate, for approximately 58 % and 65%, respectively, of its total net revenues.

The following represents the revenues by products, all derived from China:

	For the years ended December 31,	
	2009	**2008**
Products	**US$**	**US$**
Medical Devices	9,426,557	8,814,682
Technical Service	1,836,603	484,799
Respiratory and Oxygen Homecare	1,106,800	114,949
	12,369,960	9,414,430