

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

DRAGON PHARMACEUTICALS INC
Form 10-K
April 24, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended
December 31, 2002

Commission File Number 0-27937

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

Florida
(State of other jurisdiction
of incorporation or organization)

65-0142474
(I.R.S. Employer
Identification Number)

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

(604) 669-8817
(Registrant's telephone number including area code)

Securities registered under Section 12(b) of the Exchange Act: None
Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value \$0.001

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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.
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.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 an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes No

State issuer's revenues for its most recent fiscal year: \$7,362,248.

The aggregate market value of the issuer's voting stock held by non-affiliates of the issuer based upon the average bid and asked prices of such stock as of the last business day of the most recently completed second fiscal quarter was \$21,652,530.

The number of shares outstanding of the issuer's common stock as of March 15,

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

2003, was 20,334,000.

Documents Incorporated By Reference: None

With the exception of historical facts stated herein, the following discussion may contain forward-looking statements regarding events and financial trends that may affect Dragon Pharmaceutical Inc.'s future operating results and financial position. Such statements are subject to risks and uncertainties that could cause Dragon Pharmaceutical Inc.'s actual results and financial position to differ materially from those anticipated in such forward-looking statements. Factors that could cause actual results to differ materially include, in addition to other factors identified in this report, that Dragon Pharmaceutical has incurred losses since its inception and needs additional capital to complete its business plan, all of which factors are set forth in more detail in the sections entitled "Risks Associated With Dragon Pharmaceutical" and "Management's Discussion and Analysis" herein. Readers of this annual report are cautioned not to put undue reliance on "forward looking" statements that are, by their nature, uncertain as reliable indicators of future performance. Dragon Pharmaceutical Inc.'s disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

As used in this annual report, the terms "we", "us", "our", "the Company" and "Dragon" shall mean Dragon Pharmaceutical Inc. and its subsidiaries unless otherwise indicated.

Part I

Item 1. Business

General

We are a pharmaceutical and biotechnological company whose business plan is to develop and manufacture pharmaceutical products in China and market pharmaceutical products in China and developing countries. In 1999, we acquired a 75% interest in a drug manufacturing company called Nanjing Huaxin Bio-pharmaceutical Co., Ltd. ("Nanjing Huaxin") located in Nanjing City, China and are implementing our proprietary technology, which allows Nanjing Huaxin to produce drugs such as EPO in an efficient and cost-effective manner. Our strategy is to use our biotechnological expertise to produce and market pharmaceutical products primarily in China and developing countries at costs that will be lower than those currently available. We acquired the remaining 25% interest in Nanjing Huaxin in January 2002, and now have an 100% interest in Nanjing Huaxin.

Corporate History

Merger with First Geneva Investments, Inc.

We were originally formed on August 22, 1989, as First Geneva Investments, Inc. First Geneva Investments was formed for the purpose of evaluating and acquiring businesses. From 1989 to 1998, First Geneva Investments had no significant activity. On August 17, 1998, pursuant to a share exchange agreement, First Geneva Investments issued 7,000,000 shares of its common stock and 2,000,000 warrants with each warrant having the right to acquire one-half share of common stock at \$0.50 per half share, or 1,000,000 shares of common stock at \$1.00 per share in the aggregate, in exchange for all of the outstanding shares of Allwin Newtech Ltd., a British Virgin Islands corporation.

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Allwin Newtech Ltd. was formed on February 10, 1998, for the purpose of developing pharmaceutical products in China. Allwin Newtech owns certain technology used to enhance the efficiency of producing EPO. As a result of the acquisition, the former shareholders of Allwin Newtech became 87.5% shareholders of First Geneva Investments and Allwin Newtech became its wholly owned subsidiary. On September 21, 1998, First Geneva Investments changed its name to

2

Dragon Pharmaceutical Inc. Prior to the reorganization, First Geneva Investments and its officers, directors and shareholders were not affiliated with Allwin Newtech and its officers, directors and shareholders.

Our Joint Ventures and Acquisitions

Sanhe Kailong Bio-Pharmaceutical Limited

On April 18, 1998, Allwin Newtech entered into a contract to acquire a 75% interest in a joint venture called Sanhe Kailong Bio-pharmaceutical Limited, a corporation organized under the laws of China. Since that time, Allwin Newtech has increased its interest in Sanhe Kailong Bio-pharmaceutical Limited to 95%. The other 5% joint venture partner is Sinoway Biotech Limited. Sanhe Kailong was formed in 1998 for the purpose of developing, manufacturing and marketing pharmaceutical products in China.

For its initial 75% interest, Allwin Newtech agreed to contribute approximately \$1,000,000 and its technology to Sanhe Kailong. For its initial 25% interest, Sinoway Biotech was to contribute a contract to purchase a license to manufacture EPO and other drugs in China and a right to acquire a long-term lease of 25 acres of land at a pharmaceutical park located in the Yanjiao Special Economic Zone, China. Upon our acquisition of Allwin Newtech, we assumed Allwin Newtech's interest in Sanhe Kailong Bio-pharmaceutical. To increase Allwin Newtech's position from 75% to 95% in Sanhe Kailong, on March 19, 1999, we agreed to pay \$250,000 and to issue 250,000 shares of our common stock to Sinoway Biotech. Sinoway Biotech will continue to hold the remaining 5% interest. Messrs. Ken Cai, Greg Hall and Longbin Liu serve as directors of Sanhe Kailong. At this time, we have neither contributed the \$1,000,000 for research and development nor our technology to Sanhe Kailong. We have paid \$250,000 to Sinoway Biotech to increase our interest in the joint venture but have not yet issued the 250,000 shares of stock. Due to our acquisition of Nanjing Huaxin and its license to manufacture EPO, we determined not to pursue EPO manufacturing through the Sanhe Kailong joint venture. Consequently, the contract to purchase a drug manufacturing license held by Sinoway Biotech was not deemed necessary and was therefore not contributed to Sanhe Kailong. Sanhe Kailong was formed by Allwin Newtech for the purpose of the joint venture. Neither we nor Allwin Newtech had an affiliation with Sinoway Biotech prior to the joint venture's formation. Currently, Sanhe Kailong has no operations and the Company has decided to dissolve Sanhe Kailong.

Nanjing Huaxin Bio-pharmaceutical Co, Ltd.

On July 27, 1999, Allwin Newtech closed a share transfer agreement with the Nanjing Medical Group Ltd. whereby, effective June 11, 1999, Allwin Newtech purchased from the Nanjing Medical Group 75% of its equity interest in Nanjing Huaxin Bio-pharmaceutical Co, Ltd. ("Nanjing Huaxin") The total purchase price for the 75% equity interest was \$4.2 million. Of the \$4.2 million, \$1,218,100 had been allocated as working capital for the joint venture. As at February 29, 2000, Dragon had fulfilled all payment obligations for the Nanjing Huaxin acquisition. In January 2002 we acquired the balance of the 25% interest from Nanjing Medical Group for \$1,400,000.

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Originally, we contemplated entering the EPO market by acquiring an EPO license and building a manufacturing facility through our interest in Sanhe Kailong. This strategy would have required a large capital investment by us. In light of the anticipated capital investment in Sanhe Kailong, we acquired a 75% interest in Nanjing Huaxin that has an existing facility and necessary permits and licenses. Nanjing Huaxin has previously been producing an estimated 300,000 vials of EPO per year and markets its EPO under the name "Ning Hong Xin."

3

Nanjing Huaxin is located in Nanjing City, China and owns a license and production permit for the manufacture of EPO in China. In 2002 and 2001, Nanjing Huaxin manufactured approximately 3.3 million doses compared to 550,000 doses in 2000. As part of our business strategy, we have supplied management assistance and capital investment to upgrade Nanjing Huaxin's facilities and implemented our production technology to increase production efficiency and decrease production costs. Nanjing Huaxin was previously part of Nanjing Research Institute of Military Medical Science, a corporation operated by the Chinese military. We had no affiliation with Nanjing Medical Group or Nanjing Huaxin Biotech prior to entering into the share transfer agreement.

Nanjing Huaxin currently produces EPO in China for kidney dialysis applications and Chinese governmental approval for use of our EPO in surgery is expected in early 2003. Clinical trials for cancer therapy applications of our EPO are expected to be completed in late 2003.

Pharmaceutical Products

All projects concerning the Dragon pipeline products are evaluated by staff members and, where necessary, by independent scientists with a view on their economic viability at the projected launch date of the respective recombinant products.

Erythropoietin or EPO. EPO is a glycoprotein that stimulates and regulates the rate of formation of red blood cells. In the adult human, EPO is produced by the kidneys and acts on precursor cells to stimulate cell proliferation and differentiation into mature red blood cells. Kidney disease and chemotherapy or radiation therapy for treating cancer may impair the body's ability to produce EPO and, in turn, reduce the level of red blood cells to less than one-half that of healthy humans. The shortage of red blood cells leads to insufficient delivery of oxygen throughout the body. The result is anemia, which afflicts 90% of all dialysis patients. Symptoms of anemia include fatigue and weakness.

One of the treatments for anemia is to provide EPO protein. This treatment is administered through dialysis tubing or by injection approximately three times per week, either intravenously or subcutaneously. EPO is most commonly administered to people with chronic renal failure, HIV patients being treated with anti-viral drugs, and cancer patients on chemo or radiation therapy. The treatment is less dangerous and generates fewer adverse side effects than alternative treatment that include blood transfusions and androgen therapy. However, side effects of EPO may include hypertension, headaches, shortness of breath, diarrhea, rapid heart rate and nausea.

While EPO has been tested to be effective in treating anemia, other drugs and treatments currently exist or are in development that can treat anemia. These alternative drugs or treatments could be proven more effective, less expensive or preferable to the Chinese customer than EPO. The inability of EPO to compare favorably to these alternative drugs would have an adverse affect on our business objectives.

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Slow-Release EPO. In June 2001, Dragon entered into an agreement related to a novel, slow-release formulation for EPO with Transworld Pharmaceuticals Corp. of Portugal and Renapharm AB of Sweden. This was a highly significant development for Dragon that may ultimately be instrumental in placing the Company beside the leaders in the EPO marketplace.

The agreement provides Dragon with sole worldwide manufacturing rights as well as exclusive marketing rights to Asia, including China, Japan, Korea, and Southeast Asia. Transworld Pharmaceuticals, an international distributor of blood related products and biotechnology drugs, will have exclusive marketing rights to all markets outside Asia.

4

A pilot clinical trial conducted in 101 patients at the University Hospital, Uppsala University in Sweden, assessed the monthly administration of EPO in this slow release formulation compared to the four times per week administration of conventional EPO. The total dose of each form of EPO was identical. The results of the study showed that monthly administration of the slow release formulation had the same therapeutic effect as four times per week conventional EPO with the added advantage of requiring less frequent injections.

The potential market for sustained release or long-lasting EPO is estimated by Amgen and industry analysts at \$5 billion per year, with application in the treatment of anemia in patients with kidney failure and cancer patients undergoing chemotherapy.

Prior to the 2004 expiry of the EPO gene patent, generic forms of EPO may only be sold in non-patent covered markets outside North America, the European Union, Japan, Australia, and New Zealand. Given that our slow-release formulation incorporates Dragon's generic EPO, initial sales will focus on the developing world markets not protected by the EPO gene patent. After 2004, our slow-release formulation would not be restricted by any existing patents and would be eligible for marketing worldwide, excluding North America.

Dragon plans to proceed with finalizing formulation and preclinical studies following which we will file our submission with the Chinese SDA seeking permission to begin clinical trials. According to our agreement, each partner will participate in the final development of the formulation. Dr. Bo Danielson MD, PhD, Managing Director of Renapharm and developer of this slow-release formulation, will serve as lead clinical and technical advisor to the project. Dr. Danielson is recognized as a world expert on EPO, having participated in over 75 published clinical studies involving EPO.

Thrombopoietin (TPO). TPO is a protein produced mainly in the liver that stimulates the production of platelets by bone marrow. Platelets (or thrombocytes) are critical to blood clotting and wound healing, and are often diminished in patients receiving cancer chemotherapy, or in those with liver or other relevant diseases, causing a condition called thrombocytopenia (a reduced level of platelets). This condition can result in uncontrolled bleeding or bruising and is currently treated by blood transfusions.

The introduction of effective platelet stimulating drugs, such as TPO, will greatly improve our ability to treat chemotherapy-related platelet deficiencies. They may also have application for increasing platelet levels in surgical patients who donate their own blood prior to surgery for transfusion during surgery.

TPO has not yet been commercialized in any market. Genentech owns the TPO

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

gene patent and is co-developing TPO produced in a mammalian CHO (Chinese Hamster Ovary) cell culture system with Pharmacia-Upjohn. Their product is currently in Phase III clinical trials.

Dragon acquired co-development rights to a CHO cell system for the production of TPO in May of 2000, with Dragon's portion of remaining product development costs is fixed at \$60,000. Dragon has decided to no longer pursue development of TPO and is pursuing the sale of the technology to a third party.

Granulocyte-Colony Stimulating Factor (G-CSF). G-CSF stimulates the bone marrow to produce neutrophils, or leukocytes, a type of white blood cell that helps the body fight infection and disease. When white blood cells are reduced in number, a condition known as "leukopenia", susceptibility to infection increases dramatically. Cancer radiation and chemotherapy often diminish or

5

destroy the leukocytes, as does advanced HIV infection. White blood cell counts are also low in patients with acute myelogenous leukemia and in people receiving bone marrow transplants.

The introduction of G-CSF products has markedly decreased the potential for infection in patients with leukopenia by rapidly increasing the white blood cell production by bone marrow and reestablishing their protective function. The worldwide G-CSF market, currently valued at \$1.3 billion per year, was developed by Amgen and its multinational partners Hoffmann-La Roche and Kirin using a bacterial cell line technology. Boehringer Mannheim is producing G-CSF using a CHO cell line. The G-CSF gene patent expires in 2006.

We have completed cloning of the G-CSF gene and have commenced cell line development. Remaining development time, if completed, is estimated at 1.5 to 2 years at an approximate cost of \$1.5 million in addition to the \$0.5 million already spent.

Human Insulin. Insulin is a peptide hormone that is secreted by cells of the Islets of Langerhans in the pancreas. Insulin plays a critical role in glucose homeostasis (i.e. balancing the level of glucose in the blood) by regulating the production and storage of glucose in the liver, along with the uptake and metabolism of glucose in the body's tissue. Glucose is the primary energy source for the body and, therefore, insulin regulation is a critical factor to normal metabolism. In addition, insulin also regulates the metabolism of lipids and proteins.

Diabetes is the name given to a disorder of glucose level in the blood, which is primarily related to defects in insulin production, regulation, or reception. The commonest forms of insulin disorders are Type I and Type II diabetes. All Type I or IDDM (insulin-dependent diabetes mellitus) diabetics require insulin therapy, as do approximately 20% of Type II or NIDDM (non-insulin dependent diabetes mellitus) patients.

1998 worldwide incidence of diabetes was estimated at 135 million people, 10% of whom have Type I disease. This figure is projected to double to 300 million by 2025 due to improved diagnosis, aging of the population, diet, obesity and lifestyle. The cost of insulin varies greatly between countries, from a low of \$3 per vial to over \$20 per vial. Among the major producers of injectable recombinant insulin are Novo Nordisk and Eli Lilly, each with over 40% of the world market. Hoechst and several other companies account for the remaining 20%. Novo-Nordisk's and Eli Lilly's patent on human insulin expires in 2002.

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

To date, we have completed the cloning of the insulin genes and the cell line has been constructed. We have confirmed that the cell line can produce functional insulin protein at a yield suitable for development into industrial production. The Amino Acid Sequence Analysis showed that the Insulin produced by the cell line has identical Amino Acid to that produced naturally in humans ("N Terminal Amino Acid Sequence"). The protein is currently being tested in animals.

Since insulin is already an established drug, we will only be required to conduct Phase II clinical trials in China prior to submitting for regulatory approval. We anticipate that, if completed, the time to complete submission of our New Drug License in China will be 1.5 to 2 years at an additional development cost of \$1.0 million in addition to the \$1.5 million already paid.

Hepatitis B Vaccine. Hepatitis B is a viral disease that causes both acute and chronic hepatitis (inflammation of the liver) and accounts for over 1 million deaths per year. An estimated 2 billion people are infected with Hepatitis B virus (HBV) worldwide. Although relatively rare in North America, Hepatitis B infection is endemic in parts of Asia. It is estimated that there are 300 to 350 million carriers throughout China, Southeast Asia, the

6

Philippines, Africa, and the Middle East. According to a recent Chinese government survey, an estimated 10% of the Chinese population either have active Hepatitis B or are chronic carriers of the disease.

The 1999 global market for Hepatitis B vaccines is estimated at \$708 million, broken down by market as follows with less than 8% of sales generated in the developing regions of the world. These vaccines typically cost \$20 - \$30 per injection, making them prohibitively expensive for precisely those regions where they are most needed.

There are many competitors in the Hepatitis B vaccine market. There are no potential patent infringement issues to consider as a gene patent was never issued for the Hepatitis B vaccine antigen.

On October 6, 2000, we entered into an acquisition agreement with Alphatech Bioengineering Limited, a Hong Kong corporation owned by Dr. Longbin Liu and Mr. Philip Yuen, two directors of the Company (at the time the acquisition agreement was entered into, Dr. Liu was our President and CEO). Under the terms of the acquisition agreement, we agreed to purchase for \$ 4 million Alphatech Bioengineering's rights and technology relating to the production of Hepatitis B vaccine through the application of genetic techniques on hamster ovary cells including the culturing of such cells, which act as a host expression system for the production of Hepatitis B vaccine protein, and the purification of Hepatitis B vaccine protein from the culture of such cells.

Given the high costs involved in clinical trials for vaccines and the requirement for a separate vaccine production facility, it was our intention to maximize the value of our CHO cell line-based Hepatitis B vaccine product by licensing it out or beginning co-development with a partner in the near term, rather than delay product development and commercialization until we could fund it internally. As a result, on June 5, 2001, we amended the agreement with Alphatech Bioengineering to allow us to pursue additional options for the Hepatitis B Vaccine project. We were unsuccessful in finding either a licensee or co-development partner and Dr. Liu exercised his right to repurchase the Hepatitis B vaccine project. Dr. Liu has repurchased the Hepatitis B vaccine project from us for the original purchase price of \$4 million of which \$500,000 has been paid and the balance of \$3.5 million, plus interest accruing at 6% per

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

annum from September 2002, due September 5, 2003.

The \$3.5 million owed by Dr. Liu to us is unsecured. We have requested that Dr. Liu provide collateral for the amount due to us; however, Dr. Liu, while reaffirming his intention to abide by the terms of the amended agreement and pay the amount owing plus accrued interest when due, has declined to do so.

The \$3.5 million is not due until September 2003. However, due to the significant amount involved, and the lack of security or collateral securing payment, we have chosen to conservatively value the amount due and have written off the full amount due to us less a nominal amount of \$100. We fully intend to pursue collection of the full amount owing, including accrued interest, when due. See Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7.

Proprietary Biotechnology

The science behind our technology is summarized below.

7

CHO cells are used for obtaining the EPO-expression cell lines. CHO cells have the ability of proliferating indefinitely in culture and are the most widely-used mammalian cells for producing recombinant proteins.

In order to construct a CHO cell line, which expresses a particular protein, the genetic materials encoding the sequences of the desired protein (cDNA) are inserted into a plasmid vector. The plasmids are encapsulated in liposomes and then used to transfect the CHO cells. In addition to delivering the desired cDNA into CHO cells, it is the plasmid vector that largely determines whether the high yield of the recombinant protein production by the CHO cells has or has not been "transfected" (i.e., genetically modified by the uptake of the genetic material). The plasmid vector will allow the amplification of itself together with the cDNA of desired protein inside the CHO cells under certain conditions. This will lead to a higher level production of the desired protein by the transfected CHO cells.

In addition to the protein genetic information that the plasmid vector transports into the CHO cells, several marker genes are also included within the plasmids. These genes produce enzymes that can be detected to provide an indication that the cells are transfected. This will be used to select the transformed cells from the unmodified cells. Some of the marker genes are used to induce the amplification of cDNA of the desired protein in the transformed cells. More cDNA copies would translate into a higher yield of the protein. Through a selection process, clones of the CHO cells with stable growth and the highest level of expression of the desired protein are selected. During this process, various techniques are used to amplify the number of copies of the cDNA that codes for the desired protein.

These selected clones will be expanded into large volumes and stored in aliquots as the Master Cell Banks ("MCB") for large-scale protein production. The CHO cell culture systems for industrial production of recombinant proteins are variable for a few months of sustained protein production. After that, new cells from the MCB will be scaled up for another cycle. The protein produced by the CHO cells will be secreted into the media during the culture and the media obtained will be used to purify the desired protein.

Research and Development

The yield of our EPO-expression CHO cell line was tested at the Beijing

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Institute of Microbiology and Epidemiology in May of 1999. EPO production was calculated by measuring the EPO levels in the harvested media using ELISA. The yield of the results exceeded the estimated yields achieved by another manufacturer of EPO, and the estimated yields achieved by other Chinese producers.

Further, we are conducting research and development to develop and market other pharmaceutical drugs. In order to save costs, we do not have our own research department. However, as discussed below, we have entered into certain agreements with Dr. Longbin Liu, the Chairman of the Board of Directors (who was our President and CEO at the time of the transactions), or with companies in which Dr. Liu may control or have an interest into develop new project for us. These agreements may lead to conflicts of interests. See Risk Factors - "Our directors and officers may have interest in some transactions that may cause conflicts," "Certain Relationships And Related Transactions" and Notes 8, 9, 10 and 15 to our financial statements.

The Company has entered into a Patent Development Agreement dated January 14, 2002 with Dr. Liu, who was the President and CEO of Dragon at the time, and Novagen Holding Inc. ("Novagen") whereby the Company has the first right to select and acquire one patent resulting from the discovery of a new gene or protein. This option to acquire a patent has a term of three years from the date of the agreement. Novagen is a research and development company located in Vancouver. Under the agreement Novagen and Dr. Liu shall be responsible for all

8

development costs up to filing of the patent application. The Company will be required to reimburse Novagen and Dr. Liu for legal costs related to the patent filing and will be responsible for all costs related to the subsequent development and commercialization of the project.

In consideration of the rights under this agreement, the Company has paid Dr. Liu and Novagen \$500,000 and issued warrants exercisable for 1,000,000 shares of the Company at an exercise price of \$2.50 per share for a term of five years. If the Company chooses not to select a project patent within the three years following the execution of the agreement, Dr. Liu's warrants may be cancelled.

Dr. Liu and a team of research scientists trained in North America and China have been involved in the research and development of novel drug projects since 1995. The research and development focus is on the discovery of new gene proteins with broad application in the areas of oncology and cardiovascular disease. Several projects are in the late stages of drug discovery and it is anticipated that the first filing of a United States patent will occur in 2003.

The Company has also entered into a Project Development Agreement with Dr. Liu dated January 14, 2002 whereby Dr. Liu has agreed to conduct certain development projects on behalf of the Company in consideration of the Company providing funding for the projects. Dr. Liu has agreed to conduct projects for the research and development of G-CSF and recombinant Human Insulin protein and it is the work of him and his scientists that are referred to above.

International Market outside of China

Through our wholly owned subsidiary, Allwin Biotrade Ltd., we have entered into a series of marketing and license agreements. In general, Allwin Biotrade Ltd. has entered into an exclusive or non-exclusive marketing and license agreement with a local pharmaceutical distribution companies to sell, formulate, vial and package Dragon's EPO. In most cases the local pharmaceutical distribution company is responsible for obtaining, at its expense, all

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

registration from applicable regulatory authorities in order to permit the sale of our EPO in the covered area. Further, the local pharmaceutical distribution company has the right of first refusal for the sale of additional biotechnological or pharmaceutical drugs for which Allwin Biotrade may from time to time have right to licenses or sublicense. The marketing and license agreements range from five to seven years, and are subject to renewals.

Currently, Allwin Biotrade has marketing and license agreements covering 135 countries.,

Due to the initial implementation of the marketing and licensing agreement, and the seeking of regulatory approval to sell EPO in these countries, we have yet to make significant sales pursuant to these marketing and license agreements. We have, however, been approved to sell and have sold our EPO in Brazil, Egypt, India and Peru and have made a significant sale of our EPO for research purposes.

China's EPO Market

We believe that sales of EPO in the Chinese market can be increased in the future because current sales prices make it too expensive for many of the patients who could benefit from it.

China is in the process of finalizing its health care system and health insurance plan, and if established, the ability to purchase prescription drugs, including EPO, is expected to increase. For example, the health insurance plan is expected to have mandatory coverage for dialysis. A dialysis patient needs at least 80-100 doses of EPO per year. If the health insurance plans covers

9

dialysis, this may translate into a market demand in China of 50 million doses per year of EPO for dialysis alone. The coverage for EPO application for cancer related and other types of anemia is also expected. Considering the 2 million cases of cancer diagnosed in China each year, this will greatly expand the EPO market. Due to the size and complexity of instituting a healthcare system and health insurance plan in China, we are unable to predict when such health system will be implemented, when health insurance may become generally available and whether we will benefit from it.

There are three sources of EPO in the Chinese marketplace. First, Amgen and Kirin service the market through offshore production facilities. However, the price to the consumer is high because of tariffs and a value added taxes that combined add about 30% to the cost per vial. Second, there are approximately five existing domestic producers of EPO similar to Nanjing Huaxin. We believe that EPO can be freely produced and sold in China without infringing the patent rights of Kirin-Amgen (the U.S. patent holder) because no administrative protection was filed with the China before EPO was exported to China. Furthermore, EPO is not currently subject to the U.S.-China agreement on intellectual property.

Dragon believes that a lower price would allow non-governmental workers the ability to afford EPO and would increase the likelihood of EPO being included on the reimbursement list of drugs that are supplied at no charge to government workers with prescriptions. We currently sell EPO at the price imposed by the Chinese Government. Production for the years ended December 31, 2002 and 2001 was approximately 3,300,000 doses as compared to the production of 550,000 doses in 2000. We plan to maintain our costs by producing domestically in China, thus avoiding import duties. Comparative sales were 850,000 vial doses in 2002, 595,000 doses during 2001 and 389,000 doses in 2000. Dragon also had sold some EPO in bulk during 2002 for research purposes for \$3.7 million.

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

The third source of EPO is represented by Sinogen (China) Ltd., a Hong Kong subsidiary of U.S.-based Sinogen International Co. Ltd. Sinogen (China) reached an agreement in 1998 with the shareholders of the Shandong Yongming Vivogen Pharmaceutical Co. Ltd. to establish a new joint venture to research and develop EPO. This EPO was developed by the Nanjing Research Institute of Military Medical Sciences and the Hainan Yalong Institute of Biomedical Sciences. In October 1996, the Ministry of Health granted a new drug certificate to the drug and approval to start production was received in 1997.

Competition

The world market for EPO is approximately \$8 billion in annual sales and is growing. The market is dominated by three firms: Amgen Inc. of Thousand Oaks, California; Ortho Pharmaceutical Corp., a subsidiary of Johnson & Johnson, Inc. of New Brunswick, New Jersey; and Kirin Brewery Company, Limited of Japan. EPO is marketed by Amgen as "Epogen," by Johnson & Johnson as "Procrit/Epex" and by Kirin as "Espo." A fourth participant in the international EPO market is Roche Holding AG of Switzerland, which markets an EPO drug with a different heritage.

Amgen was granted United States rights to market EPO under a licensing agreement with Kirin-Amgen, Inc., a joint venture between Kirin and Amgen that was established in 1984. Johnson & Johnson acquired the rights to EPO from Kirin-Amgen for all treatments except kidney dialysis in the United States and for all uses outside the United States in 1985. Both Amgen and Kirin individually manufacture and market EPO for China and Japan. These international drug companies all have more financial resources than we do.

In addition to these international drug companies, we are competing with existing and potential domestic producers such as Sunshine SS Pharma and Sinogen. Many of our competitors may have greater financial, technical and manufacturing resources than we have. These resources would allow our

10

competitors to respond more quickly to new or emerging advancements in the drug industry and to devote greater resources to the development, promotion and sale of their products.

Due to China's growing market for pharmaceutical products, competition among drug producers is expected to increase during 2003. We anticipate that the EPO producers with the strongest marketing networks, best quality and price, and highest market shares will survive to service the EPO market in China. Dragon has set up the necessary organization in China to become a significant player.

Potential competition to EPO market includes other products or technologies that are successful in treating anemia. Amgen has sole rights to Novel Erythropoiesis Stimulating Protein, a second-generation EPO molecule that will pose serious competition to the existing products because it offers the possibility of less frequent dosing (i.e., once a week rather than three times a week).

In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that could increase their ability to reach customers in the Chinese market. Such existing and future competition could affect our ability to penetrate the Chinese market and generate sales revenues. Determining the degree, intensity and duration of competition or the impact of such competition on our financial and operating results are uncertain. No assurances can be given that we will be able to compete successfully against current and future

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

competitors, and any failure to do so would have a material adverse effect on our business.

Intellectual Property, Government Approvals and Regulations

We have received legal advice that the development, production or marketing of EPO in China is not subject to U.S. patents currently held by Kirin-Amgen because no corresponding patent was filed in China. Also, no administrative protection has been filed on EPO with the Chinese government authorities by Kirin-Amgen. In addition, we do not anticipate that any such patent or administrative protections will be imposed by U.S.-China agreements on intellectual property. As a result, we have not sought to obtain any rights or licensing from patent holders for the production or marketing of EPO in China. However, there is no assurance that U. S. patent holders or licensees may not attempt to assert claims of patent infringement in order to curtail or prevent the our production and sale of EPO in China.

The development and manufacture of EPO requires a license and permit from the Ministry of Health, China. Our subsidiary Nanjing Huaxin currently is licensed to make and sell EPO for kidney dialysis applications. It is anticipated that governmental approval to use EPO for surgery recovery will be granted later this year and for additional applications such as cancer related anemia and pregnancy related anemia will be granted in 2003. The Good Manufacturing Practices license remains valid until August 18, 2005, and is renewable at that time. There are no restrictions on the license or permits other than the requirement that the EPO drug be manufactured in compliance with Chinese Good Manufacturing Practices, and the drug may be sold for authorized medical purposes (such as anemia).

Our technology is not protected by any patents or copyrights nor do we intend to seek any such protection. We require all our research employees to sign confidentiality agreements regarding their work. However, without patent or copyright protection, we may not be able to prevent duplication of our vector technology by competitors.

Doing Business in China

Our business is being conducted in China and will be subject to the political, social and economic environment in the People's Republic of China.

11

China is controlled by the Communist Party of China. Under its current leadership, China has been pursuing economic reform policies, including the encouragement of private economic activity and greater economic decentralization. However, the Chinese central government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy. Accordingly, the Chinese government actions in the future, including any decision not to continue to support current economic reform programs and to return to a more centrally planned economy, or regional or local variations in the implementation of economic reform policies, could have a significant effect on economic conditions in China or particular regions thereof. Economic development may be further limited by the imposition of austerity measures intended to reduce inflation, the inadequate development or maintenance of infrastructure or the unavailability of adequate power and water supplies, transportation, raw materials and parts, or a deterioration of the general political, economic or social environment in the PRC, any of which could have a material adverse effect on our business, financial condition and results of operations. Moreover, economic reforms and growth in China have been more successful in certain provinces than others, and the continuation or increase of such disparities could affect the political or social stability of China.

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

If we were required to move our manufacturing operations outside of the China, our potential profitability, competitiveness and market position could be materially jeopardized, and there could be no assurance that we could continue our operations. Our business and prospects are dependent upon agreements with various entities controlled by Chinese governmental instrumentalities. The failure of such entities to honor these contracts, or the inability to enforce these contracts in China could adversely affect our business operations. There can be no assurance that assets and business operations in China will not be nationalized, which could result in the total loss of our investment in China.

The legal system of China relating to foreign investments is relatively new and continues to evolve thus creating uncertainty as to the application of its laws and regulations in particular instances. Definitive regulations and policies with respect to such matters as the permissible percentage of foreign investment and permissible rates of equity returns have not yet been published. Furthermore, statements regarding these evolving policies have been conflicting, and any such policies, as administered, are likely to be subject to broad interpretation and discretion and to be modified, perhaps on a case-by-case basis. As a legal system in China develops with respect to these new types of enterprises, foreign investors may be adversely affected by new laws, changes to existing laws (or interpretations thereof) and the preemption of provincial or local laws by national laws. In circumstances where adequate laws exist, it may not be possible to obtain timely and equitable enforcement thereof.

Geographical Breakdown.

We recently entered into new marketing and license agreements for the sale of our EPO outside of China. Sales of \$3,002,898 were made within China and sales of \$4,359,350 were made outside of China during the year ended December 31, 2002.

Segments

We operate in one segment only. We focus on the development and sale of pharmaceutical products.

Suppliers

Nanjing Huaxin produces the materials for EPO. The medium used for culturing cells is commercially available from several sources.

12

Customers

Our customers are those who were previous customers through Nanjing Huaxin. We intend to expand this customer base through an expanded marketing group at Nanjing Huaxin.

We began realizing revenue in 1999 from the sale of EPO by our subsidiary Nanjing Huaxin. Nanjing Huaxin was producing EPO at the time of our acquisition. However, its production yields were low and its technology outdated. We have begun to upgrade and improve Nanjing Huaxin's production facilities and to introduce our bioreactor technology to increase EPO production at these facilities.

New Dragon Management and Organization

At a Dragon Board Meeting Held in Nanjing in September 2002, in the presence of all Board Members, Dr. Longbin Liu resigned as President and Chief

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Executive Officer of Dragon and was appointed Chairman of the Board, replacing Dr. Ken Cai who remains on the Board. The function of CEO has been entrusted to an Executive Committee comprised of Dr. Cai, Mr. Philip Yuen and is presided over by Dr. Alexander Wick.

This committee has since taken a number of measures to change Dragon from a costly research centered company into a company which aims to rapidly increase sales of its EPO through the existing and new channels, cut costs of the organization and finance on-going and future research projects with the proceeds of our sales. Steps have been undertaken to close the Beijing and Hong Kong representative offices and to convert the Vancouver operations into a focused, lean organization capable of reaching the Company's goals.

A new and very experienced person, Dr. Yin Zhong, has taken over Nanjing Huaxin as General Manager and is streamlining the China operations

Employees

As of December 31, 2002, we had 11 employees in North America. Nanjing Huaxin has approximately 150 employees in China. Sanhe Kailong has no employees. None of the Company's workforce is unionized and there have not been any labor disputes.

13

Risks Associated With Dragon Pharmaceutical

We have a limited operating history and we have incurred losses since our founding in February 1998, and there is no guarantee of profit in the future.

Since our primary business operations only commenced in July 1999, we do not have a historical record of revenues nor an established business track record which makes future performance very difficult to predict. There is no assurance that we will be able to develop a sufficiently large production capacity and customer demand to be profitable.

We have incurred losses since our founding and for the year ended December 31, 2002, reported a net loss of \$5,250,946.

We may need additional capital to finance our operations and to develop new products and if we are unable to secure additional capital, if needed, this would adversely affect our business.

Because we currently do not have sufficient revenues to support our activities, we intend to fund our operations with our current working capital. If our losses continue, we may be required to raise additional capital to fund our operations and finance our research and development. Traditionally, we have relied primarily on the sale of common stock to meet our operations and capital requirements. Any equity financing could result in dilution to our then-existing stockholders. Debt financing will result in interest expense, and if convertible into equity, could also dilute then-existing stockholders. If we were unable to obtain financing in the amounts and on terms deemed acceptable, our business and future success may be adversely affected.

Nanjing Huaxin Bio-Pharmaceutical Co, Ltd. Nanjing has had losses since our acquisition and there is no guarantee of profit in the future.

In July 1999, we acquired our 75% interest in Nanjing Huaxin Bio-pharmaceutical Co, Ltd. which produces EPO in China. We increased our

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

interest in Nanjing Huaxin to 100% in January 2002. Nanjing has incurred operating losses in each year since acquisition. Although for the years end December 31, 1999, 2000, 2001 and 2002, we realized revenues of approximately \$990,000, \$3,175,561, \$3,073,885 and \$7,362,248, respectively, from our ownership interest in Nanjing, these revenues have not been sufficient to offset costs due primarily to drug research and development costs, plant improvements and implementation of our proprietary production technology and.

Our directors and officers may have interest in some transactions that may cause conflicts.

We have entered into, and in the future may enter into, transactions with certain member of our Board or officers or with companies that they control or have a significant interest in. For example, we acquired technology from Alphatech Bioengineering, relating to the production of Hepatitis B vaccine, which is owned by Dr. Longbin Liu and Mr. Philip Yuen, two of our directors. In connection with the Hepatitis B vaccine, we wrote-off a \$3.5 million note due to us by Dr. Liu. In addition, we have entered into a Patent development Agreement and Project Development Agreement with Dr. Liu. These agreements were entered into so that we would not be required to staff and fund our own research and development program. However, these directors and officers will be subject to various potential conflicts of interest. See "Business - Our Joint Ventures and Acquisitions" and "Research and Development" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

14

The potential risks of political, social or economic instability in the People's Republic of China, could adversely affect our ability to carry on or expand our business in China.

All of the our production is conducted in China. Consequently, an investment in our common stock may be adversely affected by the political, social and economic environment in China. Under its current leadership, China has been pursuing economic reform policies, including the encouragement of private economic activity and greater economic decentralization. There can be no assurance, however, that the Chinese government will continue to pursue such policies, that such policies will be successful if pursued, or that such policies will not be significantly altered from time to time. Our business and prospects are dependent upon agreements and regulatory approval with various entities controlled by Chinese governmental instrumentalities. Our operations and prospects would be materially and adversely affected by the failure of such governmental entities to grant necessary approvals or honor existing contracts, and, if breached, it might be difficult to enforce these contracts in China. In addition, the legal system of China relating to foreign investments is both new and continually evolving, and currently there can be no certainty as to the application of its laws and regulations in particular instances.

Our business plan assumes that if we can produce a low-priced EPO, a sufficiently large EPO market will develop in China. In order to achieve the demand for EPO, the Chinese medical community and consumers must be educated about the uses of EPO, certain institutional developments such as health care plans must occur and export market opportunities must be studied. No assurance that a sufficient EPO market will develop. Further, we may be limited in our ability to sell EPO outside of China due to EPO patent rights held by our competitors in some other countries.

Our technology is not protected by any patents. Consequently, other competitors could copy our enhanced EPO production technology and develop EPO or other pharmaceutical drugs utilizing our technology. Furthermore, Amgen Inc. currently holds a United States patent to develop and produce EPO and Amgen

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

sells EPO in China. Although no corresponding patent protection is applicable in China, there is no assurance that our current or future production of EPO will not be the subject of a patent infringement action in the future asserted by patent holders or that our competitors will take political steps to prevent us from producing EPO in China.

The exercise of outstanding warrants and options may dilute existing stockholders and could substantially increase the number of shares which may be sold into the market.

As of December 31, 2002, there were warrants outstanding to purchase 2,800,000 shares at prices ranging from \$1.70 to \$2.50 per share. Further, we have granted options to purchase an additional 3,288,000 shares of common stock with a weighted average exercise price of \$1.82 per share. Given the limited existing market in our common stock, the sale into the market of significant amounts of additional common stock may have the effect of depressing our stock share price.

There are technical risks associated in commercializing our technology which could delay or reduce the realization of lower cost production of EPO.

A key to our future success is the ability to produce EPO and other drugs at lower costs than our competitors. Although we are currently utilizing our proprietary technology to produce EPO at lower costs, our method for producing EPO on a commercial basis has only recently begun. Further, although results from recent independent tests and our early production results have been encouraging, the ability of our technology to commercially produce EPO or other drugs at consistent levels is still being evaluated.

15

Item 2. Properties

Our corporate offices are located at 1055 West Hastings, Suite 1900, Vancouver, British Columbia, Canada V6E 2E9. The Company leases the 6,432 square foot premise 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

Huaxin currently leases a 90,000 square foot production facility in Nanjing, China at 293-2 Zhong Shan Dong Road, Nanjing, China 210002. for an amount of RMB 2,700,000 (US\$326,134) per annum, until June 11, 2009.

The Company has closed down its representative office in Beijing and has terminated the lease on Company representative office in Hong Kong, effective April 30, 2003.

All of our existing facilities adequately meet our current needs.

Item 3. Legal Proceedings

We are not a party to any legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Part II

Item 5. Market for Company's Common Equity and Related Stockholder Matters

Price Range of Common Stock

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Our common stock began quotation on the OTC Bulletin Board under the symbol "DRUG" on October 9, 1998. The following quotations reflect the high and low bids for our common stock on a quarterly basis for the past two fiscal years. These quotations are based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Quarter Ended	Common Stock	
-----	High	Low
December 31, 2002	\$0.95	\$0.60
September 30, 2002	\$1.49	\$0.75
June 30, 2002	\$1.95	\$1.07
March 31, 2002	\$1.90	\$1.53
December 31, 2001	\$2.05	\$1.86
September 30, 2001	\$3.47	\$1.75
June 30, 2001	\$4.13	\$1.40
March 31, 2001	\$2.94	\$1.56

16

Holders

The approximate number of holders of record of our common stock at March 15, 2003, was 125. This number does not include stockholders who hold our securities in street name.

Dividend Policy

Holders of common stock are entitled to receive such dividends as may be declared by our Board of Directors. No dividends have been paid with respect to our common stock and no dividends are anticipated to be paid in the foreseeable future.

Recent Sales of Unregistered Securities

None.

Equity Compensation Plan Information

The following table provides aggregate information as of the end of the fiscal year ended December 31, 2002 with respect to all compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance.

Plan Category	A	B	C
-----	-----	-----	-----
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future equity

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

(exc
refle

Equity compensation plans approved by security holders	3,288,000	\$1.82
Equity compensation plans not approved by security holders	1,050,000	\$2.46
Total	4,338,000	\$1.98

17

Item 6. Selected Financial Data

We have derived the selected consolidated statement of operations data for the years ended December 31, 1999, 2000, 2001 and 2002, and the selected consolidated balance sheet data as of December 31, 1999, 2000, 2001 and 2002, from our consolidated financial statements included in this report. On August 17, 1998, First Geneva Investments, Inc. and Allwin Newtech Ltd. entered into a reorganization, pursuant to which all of the outstanding shares of Allwin Newtech were acquired for 87.5% of our outstanding shares in a reverse takeover. In connection with the reverse takeover, First Geneva Investments changed its name to Dragon Pharmaceutical. Prior to the reorganization, First Geneva Investments had no operations. Therefore, information prior to 1998 is not meaningful and not included.

	1999	2000	2001
	----	----	----
Consolidated Statement of Operations Data			
Sales	\$ 989,539	\$ 3,175,561	\$ 3,073,8
Cost of sales	204,473	902,480	583,8
Operating income (loss)	(2,865,276)	(3,158,091)	(4,016,3
(Loss) before minority interest	(2,845,879)	(3,162,309)	(3,975,9
Net (loss) for period	(2,791,033)	(2,745,794)	(3,735,3
Loss per share	\$ (0.27)	\$ (0.17)	\$ (0.
Consolidated Balance Sheet Data			
Working capital	\$ 8,405,788	\$ 4,444,066	\$ 7,551,6
Total assets	16,740,037	18,546,830	22,005,0
Total liabilities	3,289,123	3,634,100	4,440,2
Total shareholders' equity	\$12,488,768	13,983,465	16,876,2

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion, other than the historical financial information, may consist of forward-looking statements that involve risks and uncertainties, including quarterly and yearly fluctuations in results, the timely availability

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

of Dragon's pharmaceutical products, the impact of competitive products and treatments, and the other risks described in this report. These forward-looking statements speak only as of the date hereof and should not be given undue reliance.

General

The following discusses our financial condition and results of operations based upon our consolidated financial statements which have been prepared in accordance with generally accepted accounting principles.

We were formed on August 22, 1989, under the name First Geneva Investments, Inc. First Geneva Investment's business was to evaluate businesses for possible acquisition. On July 28, 1998, First Geneva Investment entered into a share exchange agreement with Allwin Newtech Ltd. Allwin Newtech was formed in 1998 for the purpose of developing and marketing pharmaceutical drugs for sale in China. Prior to the acquisition of Allwin Newtech, First Geneva Investments had no operations. The share exchange transaction was consummated on August 17, 1998, and on September 21, 1998, First Geneva Investments changed its name to Dragon Pharmaceutical Inc. On June 11, 1999, we acquired a 75% interest in

18

Nanjing Huaxin which manufactures EPO in China. In January 2002 we acquired the balance of the 25% interest from Nanjing Medical Group for \$1,400,000.

Plan of Operations

In order to expand our operations we will need additional capital. We do not have any commitments from any source to provide additional capital. Our current working capital will provide all anticipated capital requirements over the next twelve months. As a result of this increased business activity, we expect general and administrative expenses and compensation costs to increase from current levels.

An essential element of the Company's business plan is to apply for and to obtain various licenses and operating permits from various national and local agencies of the PRC for new biotech production and marketing. The Company currently possesses the requisite production licenses for EPO.

Since inception, we have relied on equity financings to fund our operations. Funds required to finance our future production expansions, marketing efforts and ongoing business are expected to come primarily from debt and equity financing with the remainder provided from operating revenues which began in September 1999. Operating revenues to date have been substantially less than the cost of operations. However, recent financings completed by management are deemed adequate to meet our anticipated working capital needs over the next 12 months.

Results of Operations

For the Fiscal Years Ended December 31, 2002 and 2001

Revenues. Revenues were derived primarily from the sale of EPO. Revenues for the year ended December 31, 2002, were \$7,362,248 and revenues for the year ended December 31, 2001, were \$3,073,885. Sales in and outside of China were \$3,002,898 and \$4,359,350, respectively during the year ended December 31, 2002 compared to \$2,630,182 and \$443,703, respectively during the year ended December 31, 2001. The sales during 2002 outside of China included delivery of a \$3.7 million in orders to one customer to be used by the purchaser for new drug

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

research and development. Cost of sales for the year ended December 31, 2002, was \$978,637 and \$583,878 for the year ended December 31, 2001. The cost of sales is attributed to the production costs of our pharmaceutical products. During the year ended December 31, 2002, we had interest income of \$146,986. Interest income for the year ended December 31, 2001, was \$250,458. Interest income is related primarily to interest earned on cash received from the private placements of common stock during the third quarter of 2001 and from cash received from international sales in 2002.

Expenses. Total expenses for the year ended December 31, 2002, were \$8,364,643. The major expenses for the year ended December 31, 2002 were \$2,100,000 paid for the development of insulin and G-CSF and selling expenses of \$2,094,820, each representing 25% of total expenses. The remaining major expense items are represented by administrative expenses and include office and miscellaneous expenses of \$213,657, legal and auditing of \$156,646, consulting fees of \$533,270, rent of \$394,004, travel of \$456,427 and salaries and benefits of \$587,515. Management fees of \$247,968 include \$192,500 paid to two directors for services during the year ended December 31, 2002.

Other significant expenses for the year ended December 31, 2002, included depreciation of fixed assets and amortization of license and permit of \$736,361,

19

provision for doubtful accounts of \$216,709, new market development of \$178,471, interest expense of \$70,944 and stock-based compensation of \$18,760.

Net and Comprehensive Loss. Dragon significantly increased its operating income for the year ended December 31, 2002 to \$118,968 compared to operating losses of \$(4,016,366) and \$(3,158,091) for the years ended December 31, 2001 and 2000, respectively. The Company had a net loss and a comprehensive loss of \$4,114,597 for the three-month period ending December 31, 2002. Dragon's net loss and comprehensive loss for the year ended December 31, 2002, was \$5,250,946.

The main reason for the large loss recorded was the Company's decision to fund the development of insulin and G-CSF and the decision to write-down the amount of \$3.5 million owed by Dr. Liu in payment for the Hepatitis B Vaccine Project to a nominal value of \$100. The amount owed is not due until September 2003. Although, Dr. Liu has reaffirmed his intention to abide by the terms of the amended agreement and pay the amount owing, plus accrued interest, when due, given the significant amount involved and the lack of security or collateral securing payment of the obligation, the Company has chosen to conservatively value the amount owed. The Company fully intends to pursue collection of the full amount, when due, and the amount collected will be recorded as non-operating income when received.

Basic and Diluted Net Loss Per Share. Dragon's net loss per share has been computed by dividing the net loss for the period by the weighted average number of shares outstanding during the year 2001. The loss per share for the year ended December 31, 2002, was \$0.26. Common stock issuable upon the exercise of common stock options and common stock warrants have been excluded from the net loss per share calculations as their inclusion would be anti-dilutive.

For the Fiscal Years Ended December 31, 2001 and 2000

Revenues. Revenues were derived primarily from the sale of EPO in China. Revenues for the year ended December 31, 2001, were \$3,073,885, and revenues for the year ended December 31, 2000, were \$3,175,561. Cost of sales for the year ended December 31, 2000, was \$583,878 and \$902,480 for the year ended December 31, 2000. The cost of sales is attributed to the production costs of our

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

pharmaceutical products. During the year ended December 31, 2001, we had interest income of \$250,458. Interest income for the year ended December 31, 2000, was \$478,922. Interest income is related primarily to interest earned on cash received from the private placements of common stock during the last quarter of 1999 and the third quarter of 2001.

Expenses. Total operating expenses for the year ended December 31, 2001, were \$6,716,373. The major expense incurred for the year ended December 31, 2001, was related to the selling of pharmaceutical products which represented approximately 30% of the total operating expenses. The remaining major expense items are represented by administrative expenses and include office and miscellaneous expenses of \$266,123, legal and auditing of \$232,785, investor relations expenses of \$405,268, rent of \$306,246, travel of \$428,651 and salaries and benefits of \$374,575. Management fees of \$424,952 include \$336,000 paid to two directors for services during the year ended December 31, 2001.

Other significant expenses for the year ended December 31, 2001, included depreciation of fixed assets and amortization of license and permit of \$597,042, research expenses of \$105,096, new market development of \$211,194, interest expense of \$154,644 and stock-based compensation of \$51,975.

20

Net and Comprehensive Loss. Dragon had a net loss of \$1,214,794 and a comprehensive loss of \$1,168,627 for the three-month period ending December 31, 2001. Calculated in the comprehensive loss for the period was a minority interest gain of \$46,167.

Dragon's net loss for the year ended December 31, 2001, was \$3,975,908. The comprehensive loss for the same period was \$3,735,305 which includes a minority interest gains of \$240,603.

Basic and Diluted Net Loss Per Share. Dragon's net loss per share has been computed by dividing the net loss for the period by the weighted average number of shares outstanding during the year 2001. The loss per share for the year ended December 31, 2001, was \$0.21. Common stock issuable upon the exercise of common stock options and common stock warrants have been excluded from the net loss per share calculations as their inclusion would be anti-dilutive.

Liquidity and Capital Resources

Dragon is a development stage pharmaceutical and biotechnological company that has commenced the manufacture and marketing of pharmaceutical products in China through its subsidiary, Nanjing Huaxin. Previously, the Company has raised funds through equity financings to fund its operations and to provide working capital. The Company currently has no plans for further equity financings but may finance future operations through additional equity financings. As of December 31, 2002 and 2001, the Company's working capital was \$5,366,073 and \$7,551,687, respectively. The decrease in working capital during 2002 was due to the requirement to fund operations, particularly the \$2,100,000 spent to fund the Company's development of insulin and G-CSF during the year.

In September 1998, the Company raised \$1 million through the sale of 2,000,000 shares of common stock. The proceeds raised were used for working capital. In April 1999, the Company entered into a \$600,000 loan agreement. The \$600,000 loan bore interest at 8% and was due in six months with the right of the Company to extend the maturity date by an additional six months in September 1999. As an inducement, the Company issued 90,000 shares of common stock to the lender. In September 1999 the Company exercised its option to extend the loan by a period of six months. As discussed below, this debt was subsequently converted

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

into common stock in 1999.

On October 14, 1999, the Company entered into securities purchase agreements with two investors located in Hong Kong. Under the terms of this agreement, the investors purchased, in the aggregate, 600,000 shares of common stock at \$2.50 per share, with the Company raising in the aggregate \$1.5 million.

On December 31, 1999, the Company closed a private placement raising \$10,645,000 through the issue of 4,258,000 shares of common stock at a price of \$2.50 per share. \$600,000 of the gross proceeds from the December 1999 offering represented the conversion of the outstanding debt by the lenders into shares of common stock of the Company at a price of \$2.50 per share.

On September 14, 2001, the Company closed a private placement raising \$7,000,000 through the issue of 3,500,000 shares of common stock at a price of \$2.00 per share.

As of December 31, 2002, the Company had \$4,935,766 in cash available, of which \$510,000 is held as collateral for a loan of RMB4,000,000 (US\$483,162), which was repaid subsequent to December 31, 2002. This cash, the \$949,045 in accounts receivable, the \$3,500,000 owed to the Company in repayment for the Hepatitis B Vaccine Project and anticipated sales will be used to fund the ongoing operations and research and development during the upcoming year.

21

Item 7a. Quantitative And Qualitative Disclosure About Market Risk

Foreign Currency Exchange Rates

Substantially all of our business is transacted in currencies other than the United States dollar. Our functional currency is the United States dollar. However, the functional currency of certain subsidiaries is their local currencies. As a result, we are subject to exposure from movements in foreign currency exchange rates, specifically the Canadian dollar/Chinese Rmb exchange rates. We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure to manage our foreign currency fluctuation risk.

Interest Rate Sensitivity

As of the year ended December 31, 2002, we had no long-term debt. Therefore, we believe we are not currently exposed to any market risks related to interest rate sensitivity.

Item 8. Financial Statements And Supplemental Data

The following is a condensed summary of actual quarterly results of operations for 2002 and 2001.

	2002		
	First	Second	Third
Revenues	\$ 1,372,808	\$ 1,026,159	\$ 3,777,

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Gross profit	1,182,284	851,693	3,316,
Income (Loss) before tax & minority interest	(937,878)	(1,824,867)	1,626,
Net income (loss)	(937,878)	(1,824,867)	1,626,
Income (loss) per share	\$ (0.05)	\$ (0.09)	\$ 0

	2001		
	First	Second	Third
Revenues	\$ 664,414	\$ 602,341	\$ 787,68
Gross profit	517,494	446,614	673,74
Loss before minority interest	(959,743)	(1,038,665)	(762,70
Net loss	(856,183)	(972,713)	(737,78
Loss per share	\$ (0.05)	\$ (0.06)	\$ (0.0

See also pages F-1 to F-22 to our financial statements.

Item 9. Changes in And Disagreements With Accountants on Accounting And Financial Disclosures

Not Applicable.

22

Part III

Item 10. Directors And Executive Officers

The directors and executive officers of Dragon, and their ages and positions, and duration as such, are as follows:

Name	Position	Age	Period
----	-----	---	-----
Alexander Wick	President and Executive Director Director	64	September 2002 - present September 1998 - present
Longbin Liu	Chairman of the Board President, Chief Executive Officer and Director	39	September 2002 - present September 1998 - present
Ken Z. Cai	Executive Director,	37	September 1998 - present
Greg Hall	Director	45	September 1998 - present

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Philip Yuen Pak Yiu	Executive Director	66	November 1999 - present
Dr. Yiu Kwong Sun	Director	59	November 1999 - present
James Harris	VP Marketing	49	January 2003 - present
Robert Walsh	Director, Corporate Development VP Marketing	42	January 2003 - present April 2000 - present
Matthew Kavanagh	Director, Finance and Compliance	47	July 2001 - present

Business Experience

The following is a description of our executive officers and directors and their business background for at least the past five years.

Dr. Alexander Wick, Ph.D. is the President and a Director of Dragon. Dr. Wick holds a doctorate degree in synthetic organic chemistry from the Swiss Federal Institute of Technology and has completed post-doctoral studies at Harvard University. He has had leading positions in the pharmaceutical research departments of F. Hoffmann-La Roche in the United States and Switzerland and Synthelabo in France (Director of Chemical Research and Development) for over 25 years in the field of antibiotics, prostaglandins, vitamins, cardiovascular CNS and AIDS. In 1995 he created the fine chemicals company Sylachim S.A., a 100%

23

subsidiary of Synthelabo, active in chemical intermediates and API's for the world's largest pharmaceutical companies (turnover of over 100 million Euros) and was its President until its acquisition by the German conglomerate mg Technologies (Dynamit-Nobel GmbH) in 2001.

Dr. Ken Z. Cai, Ph.D. is a Director of Dragon. Dr. Cai has a Ph.D in Mineral Economics from Queen's University in Kingston, Ontario, as well as 18 years of experience in mining, public company administration and financing. Since February 1996, he has been a Director and the President and Chief Executive Officer of Minco Mining and Metals Corporation, a Toronto Stock Exchange-listed company involved in mining exploration and development in China. Dr. Cai has extensive experience in conducting business in China for the past 17 years and is currently the Chairman of the Board of four Sino-foreign joint ventures.

Mr. Philip Yuen Pak Yiu is a Director of Dragon. Mr. Yuen has been a legal practitioner in Hong Kong since graduating from law school in London, England in 1961. In 1965, he established the law firm of Yung, Yu, Yuen and Co. and is now the principal partner of the firm. Mr. Yuen has over 30 years experience in the legal field and has been a director of several large listed companies in various industries. He is a director of the Association of China-appointed Attesting Officers Limited in Hong Kong, a standing committee member of the Chinese General Chamber of Commerce in Hong Kong, a member of the National Committee of the Chinese People Political Consultative Conference and an arbitrator for the

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

China International Economic and Trade Arbitration Commission.

Dr. Longbin Liu, M.D. is the Chairman of the Board of Directors of Dragon. From September 1998 to September 2002, Mr. Liu was the President of Dragon. He has 17 years of biotechnology experience in North America, Japan and China, most recently as an Assistant Professor of Medicine in the Division of Cardiovascular Medicine of the University of Massachusetts Medical Centre where he had served since 1995, before joining Dragon in September 1998. Dr. Liu earned his medical degree from Hunan Medical University in 1983. Dr. Liu was the President and Chief Executive Officer of Dragon from September 1998 until his resignation in September 2002.

Dr. Yiu Kwong Sun is a Director of Dragon. Dr. Sun graduated from the University of Hong Kong Faculty of Medicine in 1967. He is a Founding Fellow of the Hong Kong College of Family Physicians and a Fellow of the Hong Kong Academy of Medicine. Since 1995, he has served as the Chairman of the Dr. Sun Medical Centre Limited, which has been operating a network of medical centers in Hong Kong and China for the past 20 years. He is also the Administration Partner of United Medical Practice, which manages a large network of medical facilities throughout Hong Kong and Macau. Dr. Sun has been a member of the Dr. Cheng Yu Fellowship Committee of Management of the University of Hong Kong Faculty of Medicine since 1997.

Mr. Greg Hall is a Director of Dragon. Mr. Hall is a stockbroker with 18 years of corporate finance and public offerings experience. Since November 2001, Mr. Hall has been a Senior Vice President of Golden Capital Securities Ltd. in Vancouver, Canada. Prior to joining Golden Capital, Mr. Hall was with Yorkton Securities Inc for 3 years and Canaccord Capital for ten years. He is a former member/seat holder of the Vancouver Stock Exchange. Prior to joining Canaccord Capital, Mr. Hall was the Co-Founder of both Pacific International Securities and Georgia Pacific Securities Corporation.

Mr. James Harris is the Vice President Marketing and Sales for the Company. Mr. Harris has over 22 years of experience within the above field in several capacities of increasing responsibility, working with various firms ranging from large multinationals to small generic companies. Mr. Harris spent eight years

24

with Amgen most recently as a National Accounts Manager and ten years with Bayer in various sales and marketing capacities.

Mr. Robert Walsh is the Director of Corporate Development for the Company. Mr. Walsh joined the Company in April of 2000 as Vice President Marketing and Sales, responsible for comprehensive oversight of the Company's international marketing initiatives. Mr. Walsh served for 22 years in Special Operations and Medical Intelligence assignments in the U.S. Army. Prior to joining the Company, Mr. Walsh held the position of International Marketing Manager with a Seattle-based biotechnology company.

Matthew Kavanagh, CA is Director, Finance and Corporate Compliance for the Company. Mr. Kavanagh joined the Company in July 2001. He has 14 years as a Chartered Accountant in both public practice and industry. For the eight years prior to joining Dragon, Mr. Kavanagh was the Controller and Senior Financial Officer for a publicly listed venture capital corporation and, most recently, for a private international auction and liquidation company.

Committees of the Board

The audit committee is comprised of Philip Yuen, Greg Hall and Dr. Sun. The Compensation Committee is comprised of Messrs. Wick, Yuen and Sun. The corporate

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

governance committee is comprised of Messrs. Hall, Sun, and Yuen

Family Relationships

There are no family relationships between any director or executive officer.

Section 16(a) Beneficial Ownership Reporting Compliance

All directors of the Company hold office until the next annual meeting of the shareholders or until their successors have been elected and qualified.

The officers of the Company are appointed by the Board of Directors and hold office until their death, resignation or removal from office.

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors, and persons who own more than 10% of the Company's Common Stock, to file reports of ownership on Form 3 and changes in ownership on Form 4 or 5 with the Securities and Exchange Commission (the "SEC"). Such executive officers, directors and 10% stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Based solely upon its review of copies of such forms received by it, or on written representations from certain reporting persons that no other filings were required for such persons, the Company believes that, during the year ended December 31, 2001, its executive officers, directors and 10% stockholders complied with all applicable Section 16(a) filing requirements.

25

Item 11. Executive Compensation

The following table sets forth the compensation of our president and other Named Executives during fiscal years 2002, 2001 and 2000. No other officers or directors received annual compensation in excess of \$100,000 during this period.

Summary Compensation Table

	Year	Annual Compensation			Awards	
		Salary	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s)	Securities Underlying Options
Alexander Wick President	2002	\$ 0(2)	-0-	-0-	-0-	
Longbin Liu President	2002	-0-	-0-	\$112,500(1)(2)	-0-	
	2001	\$168,000(1)	-0-	-0-	-0-	
	2000	\$72,000(1)	-0-	-0-	-0-	40
Ken Cai	2002	-0-	-0-	\$80,000(1)	-0-	

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Director	2001	\$168,000(1)	-0-	-0-	-0-
----------	------	--------------	-----	-----	-----

(1) We had entered into oral consulting agreements with Dr. Liu and Dr. Cai pursuant to which they provided administrative services to the Company. Dr. Liu, as President, was paid \$150,000 annually while Dr. Cai is paid \$80,000 annually. The compensation figures for the year ended December 31, 2001, include retroactive recognition of amounts owing from prior to January 1, 2001. These consulting agreements are terminable at will.

(2) Dr. Liu resigned as President and Chief Executive Officer in September 2002 as he desired to commit more time to Research and Development activities. Dr. Wick was appointed President in September 2002 and has not drawn any compensation.

Director Compensation

Other than disclosed above, directors are not paid cash for their services but do receive stock options for serving as such.

Stock Option Plans

The shareholders of the Company approved the share option plan at the Annual General Meeting held on December 18, 2001. There are currently 4,500,000 shares reserved under the plan. As of March 15, 2003, there were options to acquire 3,288,000 shares of common stock outstanding.

There were no options granted to Executive Officers during the past fiscal year.

26

Limitation of Liability and Indemnification Matters

We have adopted Section 607.0850 of the 1999 Florida Statutes, Business Organization of the State of Florida in its bylaws. Section 607.0850 states:

(1) A corporation shall have power to indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation), by reason of the fact that he or she is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against liability incurred in connection with such proceeding, including any appeal thereof, if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any proceeding by judgment, order, settlement, or conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in, or not opposed to, the best interests of the corporation or, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

(2) A corporation shall have the power to indemnify any person, who was or

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

is a party to any proceeding by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof. Such indemnification shall be authorized if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be made under this subsection in respect of any claim, issue, or matter as to which such person shall have been adjudged to be to be liable unless, and only to the extent that, the court in which such proceeding was brought, or any other court of competent jurisdiction, shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 15, 2003, certain information with respect to the beneficial ownership of our common stock by (i) each stockholder known by us to be the beneficial owner of more than 5% of our common stock, (ii) each of our executive officers and directors, and (iii) each of our directors and executive officers as a group.

As of March 15, 2003, there were 20,334,000 shares of common stock outstanding.

27

Name and Address -----	Number of Shares (1) -----	Percenta Beneficia Owned -----
Hui Min Liu 5 Lin hui City Guan Zhen Lao Zheng Street Hunan, China	2,247,000	11.1%
Chow Tai Fook Nominee Limited 31F New World Tower 16-18 Queens Road Central Hong Kong	2,000,000	9.8%
Longbin Liu, Director	700,000 (2)	3.4%
Ken Cai, Director	500,000 (2)	2.5%
Greg Hall, Director	400,000 (2)	2.0%

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Philip Yuen, Director	831,500 (3)	4.1%
Alexander Wick, President and Director	175,000 (2)	*
Yiu Kwong Sun, Director	775,000 (4)	3.8%
James Harris, VP, Marketing and Sales	0	*
Robert Walsh, Director of Corporate Development	90,000 (2)	*
Matthew Kavanagh, Director of Finance and Corporate Compliance	70,000 (2)	*
All directors and executive officers (9 persons) as a group	3,541,500 (5)	17.4%

* Represents less than one percent.

- (1) Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within sixty days, are deemed

28

- outstanding for purposes of computing the percentage ownership of the person holding such option or warrants, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.
- (2) Represents options exercisable within sixty days.
- (3) Includes 56,500 shares of common stock owned and 175,000 shares of common stock subject to options. Also includes 600,000 shares of common stock owned by Global Equities Overseas Ltd. for which Mr. Yuen serves as a director.
- (4) Includes 175,000 shares of common stock subject to options exercisable within sixty days. Also includes 600,000 shares of common stock owned by Yukon Health Enterprise for which Mr. Sun serves as a director.
- (5) Includes options to acquire 2,285,000 shares of common stock.

Item 13. Certain Relationships and Related Transactions

Except as otherwise indicated below, we have not been a party to any transaction, proposed transaction, or series of transactions during the past fiscal year in which the amount involved exceeds \$60,000, and in which, to our knowledge, any of our directors, executive officers, five percent beneficial security holders, or any member of the immediate family of the foregoing persons has had or will have a direct or indirect material interest.

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

During 2000 and 2001, we rented space for our executive offices from Minco Mining and Metals Corporation for CDN \$2,500 per month. Mr. Cai, one of our directors, is President of Minco Mining. We believe that this rent was competitive with rent that would be charged by a non-affiliated landlord for comparable space.

Messrs. Ken Cai, Jackson Cheng and Longbin Liu served as directors of Sanhe Kailong at the time of entering into our joint venture with Sinoway Biotech. Sanhe Kailong was formed, however, for the purpose of developing a joint venture with Sinoway Biotech. Subsequent to the joint venture formation, Mr. Cheng resigned from the Board of Sanhe Kailong and was replaced by Mr. Greg Hall. They continue to serve as directors of Sanhe Kailong. Messrs. Ken Cai, Philip Yuen and Longbin Liu also serve as officers and directors of Allwin Newtech and Nanjing Huaxin, our wholly-owned subsidiaries

On October 6, 2000, we entered into an acquisition agreement with Alphatech Bioengineering to acquire its rights and technology relating to developing Hepatitis B vaccine through the application of genetic techniques on hamster ovary cells. Alphatech Bioengineering's Hepatitis B vaccine is in the development stage. Alphatech Bioengineering is jointly owned by Dr. Longbin Liu and Mr. Philip Yuen, two of our directors. On June 5, 2001, the Company amended the agreement with Alphatech to allow the Company to pursue additional options for the Hepatitis B Vaccine project. Under the terms of the amended agreement, the Company would explore different options for the Hepatitis B Vaccine project including, but not limited to, joint venture partnerships, establishing a production facility, and selling the project to a third party.

In the event that the Company did not find an option regarding the Hepatitis B Vaccine project suitable to the Company within nine months from the date of the Amended Agreement, Dr. Longbin Liu, one of the principals of Alphatech, would repurchase the Hepatitis B Vaccine project and assume operational development for a purchase price of \$4.0 million, which was the purchase price that Dragon originally paid to Alphatech. Dr. Liu was the President and CEO of Dragon at the time of both transactions. The Company decided not to pursue the project and Dr. Liu demanded to repurchase the project on the agreed terms. Dr. Liu has paid the Company \$500,000 with the balance of \$3.5 million, plus interest accruing at 6% per annum from September 2002, due September 5, 2003. The purchase price was \$4 million. See "Business - Alphatech Bioengineering Limited" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The amendment to the acquisition agreement with Alphatech Bioengineering allowing Dr. Liu the right to repurchase the Hepatitis B Vaccine project was entered into prior to the enactment of the Sarbanes-Oxley Act.

29

The amount owing by Dr. Liu to the Company is unsecured. The Company has requested that Dr. Liu provide collateral for the amount owing, however, Dr. Liu, while reaffirming his intention to abide by the terms of the amended agreement and pay the amount owing plus accrued interest when due, has declined to do so.

The amount owing is not due until September 2003. However, given the significant amount involved and the lack of security or collateral securing payment, the Company has chosen to conservatively value the amount owing and has set up a provision for the full amount, less a nominal amount of \$100,000. The Company fully intends to pursue collection of the full amount owing, including accrued interest, when due. The amount collected will be recorded as non-operating income when received.

During fiscal year 2000, the Company paid \$400,000 to Guanzhou Recomgen Biotech Co. Ltd. ("Guanzhou Recomgen"), a company incorporated in China, for the

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

funding of its TPA research and development programs with the intention of acquiring the technology. Guanzhou Recomgen is controlled by Dr. Longbin Liu. During 2001, the Company decided not to proceed with the funding and acquisition due to financial market and economic conditions. Guanzhou Recomgen and its principals refunded the \$400,000 during 2002.

Pursuant to an agreement dated August 15, 1999, Dragon entered into a joint research project for the development of rhTPO drug ("rhTPO") with Shenzhen Kelong Chuang Jian Enterprise Co. Ltd. ("Kelong"), a company incorporated in China. Dr. Longbin Liu is a principal shareholder of Kelong. Dragon's maximum commitment to this project is \$543,540 (RMB 4,500,000). Under the terms of the agreement, Kelong and Dragon will jointly own the drug license of rhTPO. Kelong and Dragon will then obtain its own individual production permit of the rhTPO drug product. Dragon paid \$483,140 (RMB 4,000,000) towards the early development phase of this project in fiscal year 2000 and the amount has been accounted for as research expense. Dragon remaining obligation was \$60,400 (RMB 500,000) for clinical testing of the rhTPO drug after the clinical testing permit has been issued by the regulatory authorities. Dragon has decided to no longer pursue development of TPO and is pursuing the sale of the technology to a third party.

We have entered into a Patent Development Agreement with Dr. Longbin Liu and Novagen whereby we have the first right to select and acquire one patent resulting from the discover of a new gene or protein. In consideration of the right under the Patent Development Agreement, we paid Dr. Liu and Novagen \$500,000 in the aggregate and warrants to purchase 1,000,000 shares of common stock at an exercise price of \$2.50 per share.

We have entered into a Project Development Agreement with Dr. Liu dated January 14, 2002 whereby Dr. Liu has agreed to conduct the research and development of G-CSF and Insulin for Dragon. Dragon will make payment for the development of G-CSF as follows: (i) \$500,000 to be provided at the commencement of the research in the G-CSF Project; (ii) \$500,000 to be provided when cell-line and related technology is established and animal experimentation commences in the G-CSF Project; and (iii) \$300,000 to be provided when a permit for clinical trials for G-CSF has been issued by the State Drug Administration of China ("SDA"); (iv) \$200,000 to be provided when a new drug license for G-CSF is issued to Dragon by the SDA and (v) \$500,000 to be paid as a bonus if the SDA issues the new drug license for G-CSF to Dragon before January 14, 2004.

Dragon will make payment for the development of Insulin as follows: (i) \$750,000 to be provided by at the commencement of the research in the Insulin Project; (ii) \$750,000 to be provided when cell-line and related technology is established and animal experimentation commences in the Insulin Project; (iii) \$300,000 to be provided when a permit for clinical trials for Insulin has been

30

issued by the SDA; (iv) \$200,000 to be provided when a new drug license for Insulin is issued to Dragon by the SDA and (v) \$500,000 to be paid as a bonus if the SDA issues the new drug license for Insulin to Dragon before January 14, 2005.

For both the G-CSF and Insulin Projects: (i) If Dragon elects to cease development of the project it will forfeit any payments made and lose ownership of the Project, but it will not be obligated to make any further payments toward the Project; and (ii) if an application for permit for clinical trials is not submitted within three years with respect to the G-CSF Project by or four years with respect to the Insulin Project or if the SDA rejects the Project for technical or scientific reasons or if development of the project is terminated by Dr. Liu, then the Dr. Liu will refund to Dragon all amounts paid, without

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

interest or deduction, with respect to the Project with in six months. Under the terms of the Project Development Agreement, we paid Dr. Liu \$2,000,000 during 2002.

Item 14. Controls and Procedures.

Within the 90 days prior to the date of this Form 10-K, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, of the design and operation of the Company's disclosure and internal controls and procedures pursuant to Exchange Act Rule 13a-14. The review identified a number of areas where there could be improvements to increase the effectiveness of controls and the Company is currently in the process of improving the controls and procedures in these areas. Notwithstanding the above, the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer have concluded that the Company's disclosure controls and procedures are sufficient enough to ensure adequate and appropriate disclosure of material information relating to the Company (including its consolidated subsidiaries) required to be included in this Form 10-K.

There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation, other than those being undertaken to increase the effectiveness of controls as discussed above.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are being filed as part of this report:

(1) Financial Statements

The following Financial Statements pertaining to Dragon are filed as part of this annual report:

Report of Independent Accountants.....	F-1
Year-end Consolidated Balance Sheets.....	F-2
Year-end Consolidated Statements of Stockholders' Equity.....	F-3
Year-end Consolidated Statements of Operations.....	F-5
Year-end Consolidated Statements of Cash Flows.....	F-6
Notes to Consolidated Financial Statements.....	F-7 thru F-24

31

(2) Exhibits

Exhibit Number	Name
2.1*	Share Exchange Agreement with First Geneva Investments
3.1*	Certificate of Incorporation and Amendments
	a. Certificate of Incorporation
	b. Certificate of Amendment, dated June 19, 1997
	c. Certificate of Amendment of Articles of Incorporation, dated September 21, 1998
3.2*	Bylaws of First Geneva Investments, Inc., as amended
10.1*	Sino-Foreign Co-operative Company Contract

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

- 10.2* Sino-Foreign Joint Venture Contract Between The Nanjing Medical Group Company Limited and Allwin Newtech Ltd.
- 10.3** Consulting Agreement with E. Pernet Portfolio Management dated June 15, 1999
- 10.4** Amendment to Sino-Foreign Co-operative Company Contract
- 10.5*** Contract to lease 25 acres of land in Yanjiao, China
- 10.6*** Sample Employment Agreement for technicians/employees
- 10.7**** Marketing and License Agreement Between Allwin Biotrade and Fargin S.A.
- 10.8**** Marketing and License Agreement Between Allwin Biotrade and Duopharma (Malaysia) SDN.BHD
- 10.9**** Marketing and License Agreement Between Allwin Biotrade and Yoo & Yoo Biotech Co. Ltd.
- 10.10**** Acquisition Agreement Among Dragon Pharmaceuticals Inc., Alphatech Bioengineering Limited, Longbin Liu and Philip Yuen
- 10.11****
 - a. Sino Foreign Joint Venture Contract Between The Nanjing Medical Group Company Limited and Allwin Newtech Ltd.;
 - b. Amendment dated November 24, 2000;
 - c. Amendment dated December 16, 2000; and
 - d. Confirmation letter of control from The Nanjing Medical Group Company Limited to Allwin Newtech dated December 16, 2000
- 10.12 + Joint research project with the Company and Shenzhen Kelong Chuang Jian Enterprise Co.
- 10.13 + Development Agreement with Dr. Longbin Liu and Novagen
- 10.14 + Project Development Agreement with Dr. Liu

32

Exhibit Number	Name
21	Subsidiaries of the registrant are Nanjing Huaxin Biopharmaceutical Co., Ltd.
23.1	Consent of Moore Stephens Ellis Foster Ltd., Chartered Accountants
99.1	Certificate under section 906.

* Previously filed with Dragon's initial registration statement on Form 10-SB, filed with the SEC on November 4, 1999.

** Previously filed with Dragon's initial registration statement on Form SB-2,

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

filed with the SEC on May 15, 2000.

*** Previously filed with Dragon's amendment no. 1 to registration statement on Form SB-2 filed with the SEC on August 3, 2000.

**** Previously filed with Dragon's amendment no. 3 to registration statement on Form SB-2 filed with the SEC on October 20, 2000.

***** Previously filed with Dragon's amendment no. 5 to registration statement on Form SB-2 filed with the SEC on December 26, 2000.

+ Previously filed with Dragon's Form 10-K filed with the SEC on April 1, 2002.

(b) Reports on Form 8-K:

None.

33

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 16, 2003

Dragon Pharmaceutical Inc.
a Florida Corporation

/s/Alexander Wick

Alexander Wick, President
(Principal Executive Officer)

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures

Date

/s/Alexander Wick

Alexander Wick, President and Director
(Principal Executive Officer)

April 16, 2003

/s/Longbin Liu

Longbin Liu, Director

April 16, 2003

/s/Ken Z. Cai

Ken Z. Cai, Director

April 23, 2003

/s/Greg Hall

Greg Hall, Director

April 16, 2003

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

/s/Philip Yuen Pak Yiu

Philip Yuen Pak Yiu, Director

April 23, 2003

/s/Dr. Yiu Kwong Sun

Dr. Yiu Kwong Sun, Director

April 23, 2003

/s/Matthew Kavanagh

Matthew Kavanagh, Director of Finance and Compliance
(Principal Financial and Accounting Officer)

April 15, 2003

CERTIFICATION

I, Alexander Wick, certify that:

1. I have reviewed this annual report on Form 10-K of Dragon Pharmaceutical Inc. ("Registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls;
6. The Registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 16, 2003

/s/Alexander Wick

Alexander Wick
President and Executive Director

CERTIFICATION

I, Matthew Kavanagh, certify that:

1. I have reviewed this annual report on Form 10-K of Dragon Pharmaceutical Inc. ("Registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls;
6. The Registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 16, 2003

/s/Matthew Kavanagh

Matthew Kavanagh
Director of Finance and Compliance