



## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

With the exception of historical facts stated herein, the following discussion may contain forward-looking statements regarding events and financial trends which 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 which 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," and the "Dragon" shall mean Dragon Pharmaceutical Inc. and its subsidiaries unless otherwise indicated.

### Part I

#### Item 1. Business

##### General

We are a development stage pharmaceutical and biotechnological company whose business plan is to develop, manufacture and market pharmaceutical products in China. We have acquired a 75% interest in a drug manufacturing company called Nanjing Huaxin Biotech Co. Ltd. located in Nanjing City, China and are currently implementing our proprietary technology which will allow Nanjing Huaxin Biotech 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 at costs which will be lower than those currently available.

##### 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. 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 Dragon Pharmaceutical Inc. Prior to the reorganization, First Geneva Investments

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

and its officers, directors and shareholders were not affiliated with Allwin Newtech and its officers, directors and shareholders.

### Our Joint Ventures with Other Companies

#### Sanhe Kailong Bio-Pharmaceutical Limited

On April 18, 1998, Allwin Newtech entered into a contract to acquire a 75% interest in a new 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 and are currently evaluating our options under the joint venture agreement. 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. Currently, Sanhe Kailong has no operations. Although no decision has been made, we may consider having Sanhe Kailong develop other pharmaceutical drugs. Sanhe Kailong was formed by Allwin Newtech for the purpose of the joint venture. Neither we nor Allwin Newtech had affiliation with Sinoway Biotech prior to the joint venture's formation.

#### Nanjing Huaxin Biotech 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 Biotech Co. Ltd. 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.

Nanjing Huaxin Biotech Co. was formed and operates pursuant to a Sino-Foreign Joint Venture Contract between The Nanjing Medical Group Company Limited and Allwin Newtech. Under the terms of the Joint Venture Contract, Nanjing Huaxin Biotech's board of directors consists of five directors of which Allwin Newtech has the right to select three directors, including the chairman. Allwin

4

Newtech has selected Messrs. Liu, Cai and Hall as its representatives. Mr. Liu also serves as chairman to Nanjing Huaxin Biotech. The Nanjing Medical group has the right to select the remaining two representatives.

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Because of Allwin Newtech's majority ownership and majority representatives on the Nanjing Huaxin Biotech's board, Allwin Newtech controls Nanjing Huaxin Biotech's operations in the ordinary course of business. However, the following transactions by Nanjing Huaxin Biotech requires the unanimous approval by its board: (1) amending Nanjing Huaxin Biotech's articles of association; (2) liquidating Nanjing Huaxin Biotech; (3) increasing or decreasing Nanjing Huaxin Biotech's registered capital; (4) mortgaging Nanjing Huaxin Biotech's assets; and (5) merging Nanjing Huaxin Biotech.

Nanjing Huaxin is located in Nanjing City, China and owns a license and production permit for the manufacture of EPO in China. Nanjing Huaxin currently manufactures approximately [300,000] doses of EPO annually; however we believe that the Nanjing Huaxin EPO production has been hampered by out-of-date technology. 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 cancer therapy applications is anticipated by the fall of 2001.

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 which 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." We are currently evaluating our options regarding our investment in Sinoway Biotech.

### Marketing and License Agreements

In August and October of 2000, Allwin Biotrade Ltd., our wholly-owned subsidiary, entered into a series of marketing and license agreements.

On August 9, 2000, Allwin Biotrade entered into a marketing and license agreement with Duopharma (Malaysia) SDN.BMD granting Duopharma an exclusive license to sell, formulate, vial and package EPO under the name "Hemotin" for the use in the treatment of anemia associated with chronic renal failure, as well as for any other medical purpose approved by the governing regulatory bodies of Malaysia or the People's Republic of China, for use in Malaysia, Singapore, Indonesia, Brunei, East Timor, Cambodia, Thailand, Vietnam, the Philippines, Laos, and Myanmar. Duopharma will be responsible for obtaining, at its expense, all registrations from applicable regulatory authorities in order to permit the sale of EPO in Duopharma's market areas, although Allwin Biotrade will be responsible in assisting Duopharma in obtaining such approvals. Further, Duopharma will have the right of first refusal for the sale of additional biotechnology or pharmaceutical drugs for which Allwin Biotrade may from time to time have rights to license or sublicense. The Duopharma marketing and license agreement is for a period of five years, and renews automatically for successive one year terms.

5

On October 2, 2000, Allwin Biotrade entered into a marketing and license agreement with Fargin S.A., a company having offices in Uruguay, granting Fargin an exclusive license to sell, formulate, vial and package EPO under the names "Hemotin" and "NingHongXin" for the use in the treatment of anaemia associated

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

with chronic renal failure, as well as for any other medical purpose approved by the governing regulatory bodies of Brazil or the People's Republic of China, for use in Brazil, the Dominican Republic, Argentina, Uruguay, Chile, and Paraguay. Fargin will be responsible for obtaining, at its expense, all registrations from applicable regulatory authorities in order to permit the sale of the EPO in Fargin's designated market, although Allwin Biotrade will be responsible in assisting Fargin in obtaining such approvals. Further, Fargin will have the right of first refusal for the sale of additional biotechnology or pharmaceutical drugs for which Allwin Biotrade may from time to time have rights to license or sublicense. The Fargin marketing and license agreement is for a period of seven years, and renews automatically for successive two year periods.

On October 8, 2000, Allwin Biotrade entered into a marketing and license agreement with Yoo & Yoo BioTech Co., Ltd., a company having offices in the Republic of Korea, granting Yoo & Yoo an exclusive license to sell, formulate, vial and package EPO under the name "Hemotin" and "NingHongXin" for the use in the treatment of anemia associated with chronic renal failure, as well as for any other medical purpose approved by the governing regulatory bodies of the People's Republic of China, for use in the Republic of Korea and the Democratic People's Republic of Korea. Yoo & Yoo will be responsible for obtaining, at its expense, all registrations from applicable regulatory authorities in order to permit the sale of the EPO Yoo & Yoo's market areas although Allwin Biotrade will be responsible in assisting Yoo & Yoo in obtaining such approvals. Further, Yoo & Yoo will have the right of first refusal for the sale of additional biotechnology or pharmaceutical drugs for which Allwin Biotrade may from time to time have rights to license or sublicense. The Yoo & Yoo marketing and license agreement is for a period of seven years, and renews automatically for successive one year periods.

### Acquisition Agreement with Alphatech Bioengineering Limited

On October 6, 2000, we entered into an acquisition agreement with Alphatech Bioengineering Limited, a Hong Kong corporation owned by Mr. Longbin Liu and Mr. Philip Yuen. Mr. Liu is our president and one of our directors and Mr. Yuen is one of our directors. Under the terms of the acquisition agreement, we have agreed to purchase 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.

In connection with entering into the acquisition agreement, Alphatech Bioengineering has made certain representations regarding the development of a cell-line of hamster ovary cells which act as a host expression system for the production of Hepatitis B vaccine protein including:

- o the cell-line of hamster ovary cells has been developed to the stage where the hamster ovary cells have the capacity to express Hepatitis B vaccine protein at levels in excess of 5 mg/liter;

6

- o the technology includes industrial scale fermentation and purification methods that are suitable for use in the commercial production of Hepatitis B vaccine protein for incorporation in a Hepatitis B vaccine for humans; and
- o within three months of a production facility of sufficient capacity being fully operational for industrial production, to the reasonable satisfaction of Alphatech Bioengineering, and staffed and equipped with a bioreactor system and purification

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

process for the Hepatitis B vaccine protein:

- o the technology will have the capacity to support a sustained production at the production facility of at least 1,000,000 doses per year of Hepatitis B vaccine protein;
- o production facility of Hepatitis B vaccine protein will yield at least 5 mg/liter from the bioreactor and the recovery of the purified Hepatitis B vaccine protein of acceptable commercial quality meeting the standard of the State Drug Administration of China from media which would yield at least 50% or 2.5 mg/liter in the first three batches of commercial production; and
- o the direct production costs in China, based upon current prices, for the first one million doses of Hepatitis B vaccine, including all costs directly associated with the manufacture of Hepatitis B vaccine protein, will be less than US\$1.00 per dose.

In the event any of the representations and warranties made by Alphatech Bioengineering are breached by Alphatech Bioengineering, we will have the right to require Alphatech Bioengineering to reimburse us for the \$4 million purchase price.

Alphatech Bioengineering's rights and technology relating to the production of Hepatitis B vaccine is in the developmental stage, and Alphatech Bioengineering has no commercial production of or sales of Hepatitis B vaccine. The acquisition of Alphatech Bioengineering's rights and technology relating to the development of Hepatitis B vaccine is subject to customary representations and conditions.

Subsequent to the end of the fiscal year, on March 22, 2001, the Company entered into a letter of intent with Alphatech to allow the Company to pursue additional options for the Hepatitis B Vaccine project. Under the terms of the letter of intent, the Company will 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 does not find an option suitable to the Company within nine months from the date of the Definitive Agreement, Dr. Longbin Liu, one of the principals of Alphatech, will repurchase the Hepatitis B Vaccine project and assume operational development. The purchase price will be US \$4.0 million, which was the purchase price which Dragon originally paid to Alphatech.

7

### Pharmaceutical 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.

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

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 the alternatives, which 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 which 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.

### Proprietary Biotechnology

We have achieved enhanced efficiencies in the production of EPO by Nanjing Huaxin by introducing a high-yield mammalian cell line developed in China. Our scientists designed a unique plasmid vector for expression of target genes in mammalian cells and constructed the EPO-expression CHO (Chinese Hamster Ovary) cell line using this technology. The science behind our technology is summarized below.

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. The CHO cell-based expression system is considered the industry standard and is used by us for protein production.

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

8

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

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

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

We have developed our own technology to construct a unique plasmid vector. This plasmid vector is used for constructing a CHO cell line, which produces EPO at high yields. We expect this technology to increase EPO production and reduce the cost of EPO production.

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

Our research and development is conducted in China and led by Dr. Liu. These activities are carried out by employees of Nanjing Huaxin as well as outside consultants.

### China's EPO Market

Sales of EPO in the Chinese market have been less than elsewhere in the world 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. This will 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 or when health insurance may become generally available.

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 prohibitive because of tariffs and a value added tax that combined add about 30% to the cost per vial. Second, there are approximately 5 existing domestic producers of EPO similar to Nanjing Huaxin. We

9

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 administration 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 approximately \$11.00 per dose. We plan to maintain our costs by producing domestically, thus avoiding import duties, and by producing with high-yield vector technology, thus



## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

avoiding the perceived quality and inefficient yield problems of existing domestic producers. During the last quarter of 1999, we produced 92,000 doses of EPO and during the first quarter of this year, we produced approximately 175,000 doses. Comparative sales were 36,625 doses during the last quarter of 1999 and 58,870 doses for the first quarter of 2000. Sales for the year ended December 31, 2000, were 305,847 doses.

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. To the best of our knowledge, Sinogen (China) is capable of producing between 500,000 and 1 million doses of EPO per year but is currently producing less than 300,000 doses per year. We do not know, however, the selling price of EPO per dose sold by Sinogen (China). The EPO drug license utilized by Sinogen (China) was granted to the former owners of the production facility. Sinogen (China) bought the existing company with the license and the production facility. It is still structured as a joint venture company and Sinogen (China) is the majority shareholder.

### Competition

The world market for EPO is approximately \$3 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 will be competing with existing and potential domestic producers such as Sunshine and Sinogen. Many of our competitors may have greater financial, technical and manufacturing resources than we have. These resources would allow our 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.

10

We expect to have a competitive advantage due to our high production yield which should result in larger profit margins compared to other domestic producers. We will continue to have our EPO product included on the government reimbursement list although other EPO producers are also represented on this list. However, we intend to market our EPO product at a cost that is lower than competitors which is expected to give us a competitive advantage.

Due to China's growing market for pharmaceutical products competition among drug producers is expected to increase during 2001. After then, 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

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

market in China.

Potential competition to EPO market includes other products or technologies that are successful in treating anemia. Hoechst Marion Roussel is currently conducting clinical trials on gene-activated erythropoietin for the treatment of anemia, while Alkermes, Inc. of Cambridge, Massachusetts and Johnson & Johnson are currently conducting clinical trials with a sustained delivery formulation of Epoetin alfa for the treatment of 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). Phase I clinical trials have commenced in pre-dialysis patients, and Amgen expects to begin studies in chemotherapy-induced anemia this year.

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 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 additional applications such as cancer related anemia, pregnancy related anemia and surgery recovery will be granted later this year. 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).

11

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

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

political, social and economic environment in the People's Republic of China. 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.

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.

### 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

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

facilities and to implement our technology to increase EPO production at these facilities.

### Employees

As of December 31, 2000, we had no employees but engaged three consultants, Messrs. Liu, Maskerine and Walsh, to perform administrative services. We expect to commence hiring full and/or part-time employees during the calendar year 2001. Nanjing Huaxin has approximately 100 employees in China. Sanhe Kailong has no employees.

### Risks Associated With Dragon Pharmaceutical

We have a limited operating history and we have incurred losses since our founding in February 1998, and expect such losses to continue for the foreseeable 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 operating losses since our founding and for the year ended December 31, 2000, reported an operating loss of \$3,641,231. Due to our need to develop our manufacturing capabilities and expand our customer base, we anticipate further operating losses through at least the current calendar year 2001 and the foreseeable future.

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.

13

Nanjing Huaxin Biotech Co. Ltd. Nanjing has had losses since our acquisition and will continue to incur losses for the foreseeable future.

In July 1999, we acquired our 75% interest in Nanjing Huaxin Biotech Co. Ltd. which produces EPO in China. Nanjing has recognized an operating loss for the years ended December 31, 1999 and 2000. We expect such operating losses to continue until the recent plant improvements and our enhanced production technology is fully realized. Although for the years end December 31, 1999 and 2000, we realized revenues of approximately \$990,000 and \$3,175,561, respectively, from our ownership interest in Nanjing, these revenues have not been sufficient to offset operating costs due primarily to plant improvements and implementation of our proprietary production technology. We expect to invest an additional \$1,000,000 over the next 12 months in order to complete the plant improvements and new production processes for the manufacturing of EPO.

Our joint venture partner has the power to prohibit certain transactions

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

proposed by us regarding Nanjing Huaxin Biotech Co. Ltd.

Under the terms of the Sino-Foreign Joint Venture Contract of Nanjing Huaxin Biotech Co., we, through Allwin Newtech, have the power to control Nanjing Huaxin Biotech in the ordinary course of business. However, certain transactions, including liquidating Nanjing Huaxin Biotech, amending Nanjing Huaxin Biotech's articles of association, mortgaging Nanjing Huaxin Biotech's assets, increasing or decreasing Nanjing Huaxin Biotech's registered capital and merging Nanjing Huaxin Biotech requires the approval by our joint venture partner. Therefore, even though we believe that a certain transaction may be beneficial to Nanjing Huaxin Biotech and its shareholders, in the event we do not receive the approval of our joint venture partner, we will be unable to complete the proposed transaction involving Nanjing Huaxin Biotech.

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.

Virtually all of 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.

14

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 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, 2000, there were warrants outstanding to purchase 4,258,000 shares. Further, we have issued options to purchase an additional

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

3,043,000 shares of common stock. 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.

We have no employment agreement with Dr. Liu, who supervises our EPO production program and personnel. The loss of Dr. Liu's services would adversely impact our profitability.

Our future performance is substantially dependent on the technical expertise of Dr. Liu and other key researchers who Dr. Liu supervises. The loss of Dr. Liu or any of our key research personnel could have a material adverse effect on our business, development, financial condition, and operating results. We do not have an employment agreement with Dr. Liu nor do we maintain "key person" life insurance on Dr. Liu.

### Item 2. Properties

Our corporate offices are located at 543 Granville Street, Suite 1200, Vancouver, British Columbia, Canada V6C 1X8. We also have an office in Beijing, located at 11th Floor, Suite 18-19, China World Tower 2, 1 Jianguomenwai Avenue, Beijing, 100004.

Huaxin currently leases a large production facility in Nanjing, China.

Although no additional property is deemed necessary at this time, the Sanhe Kailong joint venture has the right to purchase 25 acres of land at a pharmaceutical park in China's Yanjiao Special Economic Zone.

15

### 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

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

Quarter Ended	Common Stock	
	High	Low

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

	----	---
December 31, 2000	\$3.88	\$1.63
September 30, 2000	\$4.56	\$3.25
June 30, 2000	\$8.00	\$4.31
March 31, 2000	\$9.00	\$4.37
December 31, 1999	\$3.69	\$1.63
September 30, 1999	\$3.38	\$2.25
June 30, 1999	\$3.19	\$1.88
March 31, 1999	\$2.00	\$1.00

The approximate number of holders of record of our common stock at March 15, 2001, was 99. This number does not include stockholders who hold our securities in street name.

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.

### Item 6. Selected Financial Data

We have derived the selected consolidated statement of operations data for the years ended December 31, 1998, 1999 and 2000, and the selected consolidated balance sheet data as of December 31, 1999 and 2000, 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.

16

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.

	1998	1999	2000
<b>Consolidated Statement of Operations Data</b>			
Sales	\$ -	\$ 989,539	\$ 3,175
Cost of sales	-	204,473	902
Operating loss	(481,454)	(2,865,276)	(3,641)
Loss before minority interest	(471,717)	(2,845,879)	(3,162)
Net (loss) for period	(471,717)	(2,791,033)	(2,745)
Loss per share	\$ (0.06)	\$ (0.27)	\$ ( )
<b>Consolidated Balance Sheet Data</b>			
Working capital	\$ 829,493	\$ 8,405,788	\$ 4,444
Total assets	2,480,813	16,740,037	18,546
Total liabilities	743,633	3,289,123	3,634
Total shareholders' equity	\$ 1,737,180	\$ 12,488,768	\$ 13,983

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

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

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 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. Actual results may vary significantly from those projected.

### 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 Nanjing Huaxin Biotech Co., Ltd. which manufactures EPO in China.

### 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

17

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 biodrug 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, 2000 and 1999

Revenues. Revenues was derived primarily from the sale of EPO in China. Revenue for the year ended December 31, 2000, was \$3,175,561, and revenue for the year ended December 31, 1999, was \$989,539. Cost of sales for the year ended December 31, 2000, was \$902,480 and \$204,473 for the year ended December 31, 1999. The cost of sales is attributed to the production costs of our pharmaceutical products. During the year ended December 31, 2000, we had



## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

interest income of \$478,922. Interest income for the year ended December 31, 1999, was \$19,397. Interest income is related primarily to interest earned on cash received from the private placement of common stock during the last quarter of 1999.

Expenses. Total operating expenses for the year ended December 31, 2000, were \$3,946,975. The major expense incurred for the year ended December 31, 2000, related to the selling of pharmaceutical products represented approximately 38% of the total operating expenses. The remaining major expense items are represented by administrative expenses and include costs associated with GMP certificate which accounted for \$519,988. Major operating expenses included office and miscellaneous expenses of \$179,018, and salaries and benefits of \$236,032. Management fees of \$123,000 include \$72,000 paid to one director for services during the year ended December 31, 2000.

Other significant expenses for the year ended December 31, 2000, included depreciation of fixed assets and amortization of license and permit of \$515,106, write off of land-use rights of \$257,344, research expenses of \$544,500, new market development of \$279,114, and stock-based compensation of \$205,375.

Net and Comprehensive Loss. Dragon had a net loss of \$2,328,847 and a comprehensive loss of \$1,979,042 for the three-month period ending December 31, 2000. Calculated in the comprehensive loss for the period was a minority interest gain of \$349,805.

Dragon's net loss for the year ended December 31, 2000, was \$3,162,309. The comprehensive loss for the same period was \$2,745,794 which includes a minority interest gain of \$416,515.

18

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 2000. The loss per share for the year ended December 31, 2000, was \$0.17. 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, 1999 and 1998.

Revenues. For the period from February 10, 1998 to December 31, 1998, Dragon had no revenues. For the year ended December 31, 1999, Dragon had revenues of \$989,539. Revenues were attributable to sales of pharmaceutical drugs produced by Nanjing Huaxin subsequent to July 27, 1999. Cost of sales of \$204,473 is attributed to the production costs of the pharmaceutical products. During 1999 Dragon had interest income of \$19,397 compared to interest income of \$9,737 for the period ended December 31, 1998. Interest income is related to interest earned on cash received from the private placement of common stock during the last six months of 1998 and in 1999.

Expenses. Total expenses for the fiscal year ended December 31, 1999, were \$3,650,342 as compared to \$481,454 for the period ended December 31, 1998. The primary expense incurred in 1999 related to stock option compensation of \$1,876,000 and represented approximately 51% of total expenses. This compensation included both new options granted to employees, directors and advisors to the Company and the vesting of options granted in previous fiscal years. Selling expenses increased from none during 1998 to \$619,676 in 1999. This increase represents the Company's increased marketing activity in China. Other significant expenses in 1999 included loan interest of \$326,623 (including both common shares and cash), depreciation of intangible assets of \$135,931, travel of \$113,415, salaries and benefits of \$151,598, and management fees of

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

\$96,000. Management fees relate to the payment of two directors for services in the amount of \$96,000 per annum. The depreciation of intangible assets relates to the amortization of the drug license to produce EPO.

The primary expenses incurred during 1998 related to stock option compensation of \$300,000, management fees of \$41,943, travel of \$41,784, and legal of \$23,241. Stock option compensation of \$300,000 related to stock options granted to officers and directors of the Company, management fees of \$41,943 related to the payment to two directors for services, \$41,784 related to travel to China to evaluate pharmaceutical companies and legal expenses related to the reorganization of Allwin Newtech and the raising of capital.

Net and Comprehensive Loss. Dragon had a net loss of \$2,845,879 and a comprehensive loss of \$2,791,033 for the fiscal year ending December 31, 1999, compared to a net loss of \$471,717 and a comprehensive loss of \$473,862 for the period February 10, 1998 to December 31, 1998. Calculated in the comprehensive loss for 1999 was a minority interest gain of \$54,846. The comprehensive loss for 1998 included a foreign currency translation adjustment of \$2,145 related to Dragon's operations in China.

### 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 75% equity interest in Nanjing Huaxin Biotech. Previously, the Company has raised funds through equity financings to fund its operations and to provide working capital. The Company currently has no plans

19

for further equity financings but may finance future operations through additional equity financings. As of December 31, 2000 and 1999, the Company's working capital was \$4,444,066 and \$8,405,788, respectively. The decrease in working capital during 2000 was due to a private placement conducted in the latter part of 1999 that provided gross proceeds of \$10,645,000. No similar fund-raising occurred in 2000. The Company showed Subscriptions Receivable totaling \$9,320,000 at December 31, 1999, with the balance of subscription proceeds being received by the Company subsequent to the previous fiscal year end.

In September 1998, the Company raised \$1 million through the sale of 2,000,000 shares of common stock. The proceeds raised were for working capital. In April 1999, the Company entered into a \$600,000 loan agreement. The \$600,000 loan bears interest at 8% and is 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 additional 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. This debt was subsequently converted into common stock.

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.

Item 7a. Quantitative And Qualitative Disclosure About Market Risk

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

### 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, 2000, we had no long-term debt. Therefore, we believe we are not currently exposed to any market risks related to interest rate sensitivity.

20

### Item 8. Financial Statements And Supplemental Data

The following is a condensed summary of actual quarterly results of operations for 1999 and 2000.

	1999			
	First	Second	Third	Fourth
Revenues	(1)	\$ -	\$ 333,555	\$ 655,984
Gross profit		-	229,475	555,591
Loss before minority interest		(148,588)	(188,281)	(2,509,010)
Net loss		(148,588)	(138,671)	(2,503,774)
Loss per share		\$ (0.01)	(0.03)	\$ (0.27)
	2000			
	First	Second	Third	Fourth
Revenues	\$ 661,785	\$ 797,127	\$ 739,062	\$ 977,587
Gross profit	562,920	629,591	553,543	527,027
Loss before minority interest	(223,869)	(184,540)	(425,053)	(2,328,847)
Net loss	(234,780)	(168,997)	(362,975)	(1,979,042)
Loss per share	\$ (0.02)	\$ (0.03)	\$ (0.06)	\$ (0.17)

(1) The Company did not commence operations until the second quarter of 1999. Therefore, no information is provided for the first quarter of 1999.

See pages F-1 to F-23 for our financial statements.

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

Not Applicable.

21

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

### 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 -----
Longbin Liu	President, Chief Executive Officer and Director	37	September 1998 - present
Ken Z. Cai	Director, Chief Financial Officer	35	September 1998 - present
Shaun Maskerine	Secretary/Treasurer	32	July 1998 - present
Greg Hall	Director	43	September 1998 - present
Alexander Wick	Director	62	September 1998 - present
Philip Yuen Pak Yiu	Director	64	November 1999 - present
Dr. Yiu Kwong Sun	Director	62	November 1999 - present

### Directors of Subsidiaries

The directors of our three subsidiaries are as follows:

Name ----	Position -----	Nanjing Huaxin Biotech (1) (2) -----	Allwin Newtech (2) -----	Sanhe Kailong Bio-Pharmaceut -----
Ken Cai	Director	X	X	X
Longbin Liu	Director	X	X	X
Philip Yuen	Director	X	X	
Greg Hall	Director			X
Jiamiao Li	Director	X		
Weiming Xu	Director	X		

-----

(1) Pursuant to the joint venture agreement, Nanjing Huaxin Biotech has a five member board of directors with Allwin Newtech designating three of the five members. The Nanjing Medical Group has the right to elect two directors to Nanjing Huaxin Biotech Co. Ltd's board of directors and selected Mr. Jiamiao Li and Mr. Weiming Xu as its representatives. Neither Mr. Jiamiao Li nor Mr. Weiming Xu are affiliated with Dragon, and Dragon has no control over The Nanjing Medical Group's selection.

22

(2) Dragon is the sole or controlling shareholder of each of these entities. Consequently, Dragon has the power to appoint a majority of the Directors in these entities. Allwin Newtech and Sanhe Kailong Bio-Pharmaceutical have no other directors.

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

### 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. Longbin Liu, M.D. is the President, Chief Executive Officer and Director of Dragon. He has 15 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. Ken Z. Cai is Chief Financial Officer and a Director of Dragon. Dr. Cai has a Ph.D in Mineral Economics from Queen's University in Kingston, Ontario, as well as 16 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 15 years and is currently the Chairman of the Board of four Sino-foreign joint ventures.

Mr. Greg Hall is a Director of Dragon. Mr. Hall is a stockbroker with 17 years of corporate finance and public offerings experience. Since April, 1999, Mr. Hall has been a Senior Vice President of Yorkton Securities Inc. in Vancouver, Canada. Prior to joining Yorkton Securities, Mr. Hall was with 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.

Dr. Alexander Wick is 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 30 years of biotechnology and pharmaceuticals experience and is currently the President of Sylachim, a chemicals and pharmaceuticals producer located in France, which position he has held since 1995.

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 China International Economic and Trade Arbitration Commission.

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

23

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

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

been a member of the Dr. Cheng Yu Fellowship Committee of Management of the University of Hong Kong Faculty of Medicine since 1997.

Mr. Shaun Maskerine is Secretary and Treasurer of Dragon. From July 7, 1998, to November 23, 1999, he was also a director. From July 7, 1998, to September 18, 1998, Mr. Maskerine was President of Dragon. Since January 1999, Mr. Maskerine has been the President and Director of Aquarius Ventures Inc., a resource based company. From March 1998 to January 1999, Mr. Maskerine was Vice President of Finance of Aquarius Ventures. He is also the President and Director of Global Petroleum Inc., another resource based company. He has held these positions since September 1998. Aquarius Ventures Inc. and Global Petroleum Inc. are both listed on the Canadian Venture Exchange. Prior to March 1998, Mr. Maskerine was a management consultant in the hotel/tourism industry.

Ms. Anna Liu is the Controller for the Company. Ms. Liu is a Certified General Account Candidate and has been working as an accountant for North American companies with Chinese operations for five years. Ms. Liu received her Masters in Economics from the University of British Columbia.

### Committees of the Board

The Board has an executive committee consisting of Messrs. Liu, Cai, and Hall. The executive committee's primary function is to administer all our daily operating activities, including our subsidiaries and joint venture companies. The Board has also created committees to direct our operations in each functional area. The finance committee is comprised of Messrs. Cai, Yuen and Hall. The technology committee is comprised of Messrs. Wick, Liu and Suen. The investor relations committee is comprised of Messrs. Cai and Hall. The audit committee is comprised of Alexander Wick, Ken Cai and Greg Hall.

### Family Relationships

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

### Section 16(a) Beneficial Ownership Reporting Compliance

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, 2000, its executive officers, directors and 10% stockholders complied with all applicable Section 16(a) filing requirements.

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

24

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

### Item 11. Executive Compensation

The following table sets forth the compensation of our president during the last fiscal year 2000. No other officers or directors received annual compensation in excess of \$100,000 during the last fiscal year.

# Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

## Summary Compensation Table

	Year	Annual Compensation			Long Term	
		Salary	Bonus (\$)	Other Annual Compensation (\$)	Awards	
					Restricted Stock Award(s)	Securities Underlying Options (#)
Longbin Liu	2000	\$72,000	-0-	-0-	-0-	400,000
President	1999	\$72,000	-0-	-0-	-0-	-0-
	1998	\$36,000	-0-	-0-	-0-	300,000

We have entered into oral consulting agreements with Dr. Liu and Mr. Maskerine pursuant to which they provide administrative services to us. Dr. Liu, as President, is paid an annual salary of \$72,000 and received stock options to purchase 300,000 shares of common stock in 1998. Mr. Maskerine, our former president, serves as our Secretary/Treasurer and is paid an annual salary of \$45,000. Mr. Maskerine also received stock options to purchase 75,000 shares of common stock in 1998. These consulting agreements are terminable at will.

### Director Compensation

Directors are not paid cash for their services but do receive stock options for serving as such.

### Stock Option Plans

We have no stock option plan. However, the Board of Directors has approved the issuance of stock options to our employees, directors, officers and consultants. Unless otherwise provided by the Board, all options are exercisable for a term of five years. As of March 15, 2001, there were options to acquire 3,043,000 shares of common stock outstanding.

25

The following table sets forth the stock options granted to Mr. Liu during the past fiscal year:

### Options Granted in the Year Ended December 31, 2000

Name	Number of Securities Underlying Options Granted in 2000	% of Total Option Granted to Employees in Fiscal Year 2000	Exercise of Base Price (\$/share)	Expiration Date
Longbin Liu	400,000	23%	3.125	November 13, 2005

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

The following table sets forth the option value for Mr. Liu as of December 31, 2000. As of December 31, 2000, the per share price of one share of common stock was \$1.63 as quoted on the OTC Bulletin Board.

Fiscal Year End Option Value (December 31, 2000)

Name	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End (#)	Value of Unexercised in the Money Options/SARs at Fiscal Year End
	Exercisable/Unexercisable Options at December 31, 2000	Exercisable/Unexercisable Options at December 31, 2000
-----	-----	-----
Longbin Liu	700,000 / 0	\$1,060,000 / 0

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 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

26

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



## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

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, 2001, 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, 2001, there were 16,706,000 shares of common stock outstanding.

Name and Address -----	Number of Shares(1) -----	Percentage Beneficially Owned -----
Arbora Portfolio Management Gartenstrasse 38 Zurich, Switzerland	1,062,500	6.4%
Zhibin Cai and Yu Fongmei(2) 18 Main Street Votian Hubei, China	1,899,000	11.4%
Robert Friedland No. 1 Temasek Avenue #37-02 Millenia Tower Singapore 039192	1,000,000(3)	5.6%
Berycon Ltd. 13/F Gloucester Tower The 11 Pedder Street Central Hong Kong	1,000,000(4)	5.8%
Chow Tail Fook Nominee Limited 31F New World Tower 16-18 Queens Road Central Hong Kong	2,000,000(5)	11.5%

27

Name and Address -----	Number of Shares(1) -----	Percentage Beneficially Owned -----
Chimei Wu Ho 396 Chungshan Road, Sec 2 Puli Town, Taiwan	2,400,000	14.7%
Longbin Liu, President, Chief Executive Officer and Director	700,000(6)	4.0%

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Shaun Maskerine, Secretary	91,250 (7)	*
Ken Cai, Chief Financial Officer and Director	500,000 (6)	2.9%
Greg Hall, Director	400,000 (6)	2.3%
Philip Yuen, Director	877,500 (8)	5.2%
Alexander Wick, Director	175,000 (6)	1.0%
Yiu Kwong Sun, Director	775,000 (9)	4.6%
All directors (8 persons) and executive officers as a group	4,648,750 (10)	23.6%

-----

\* 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 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) Zhibin Cai is the father of Mr. Ken Cai. Yu Fong Mei is the mother of Mr. Ken Cai. They do not reside with Mr. Ken Cai.
- (3) Includes 500,000 shares of common stock owned by Newstar Securities Ltd. (a company controlled by Mr. Friedland) with the balance representing warrants exercisable within sixty days. Mr. Friedland is a former director who resigned on September 8, 2000.
- (4) Includes 500,000 shares which may be acquired pursuant to warrants exercisable within sixty days.
- (5) Includes 1,000,000 shares which may be acquired pursuant to warrants exercisable within sixty days.
- (6) Represents options exercisable within sixty days.
- (7) Includes 6,250 shares of common stock owned with the balance representing options exercisable within sixty days.
- (8) Includes 62,500 shares of common stock owned and 215,000 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.

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

(9) 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.

(10) Includes options and warrants to acquire 2,880,000 shares of common stock.

28

### 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.

We currently rent 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 is 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, our wholly-owned subsidiary. Messrs. Ken Cai, Longbin Liu and Philip Yuen had served prior to the joint venture and continue to serve as three of the five directors of Nanjing Huaxin, a joint venture in which we own a 75% interest.

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, our president and a director, and Mr. Philip Yuen, one of our directors. The purchase price is \$4 million. See "Business - Acquisition Agreement with Alphatech Bioengineering Limited."

During fiscal year 2000, the Company paid \$400,000 to Guanzhou Recomgen Biotech Co. Ltd. ("Guanzhou Recomgen"), a company incorporated in China, for the funding of its TPA research and development programs with the intention of acquiring the technology. Guanzhou Recomgen is controlled by Dr. Longbin Liu. Subsequent to the year-end, due to financial market and economic conditions, the Company decided not to proceed with the funding and the acquisition. In accordance with the agreement, Guanzhou Recomgen and its principals agreed to refund the \$400,000 before September 30, 2001.

Pursuant to an agreement dated August 15, 1999, the Company 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. The Company's maximum commitment to this project is US\$543,540 (RMB 4,500,000).

Under the terms of the agreement, Kelong and the Company will jointly own the drug licence of rhTPO. Kelong and the Company will then obtain its own

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

individual production permit of the rhTPO drug product. The Company 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. The Company has to pay the remaining US\$60,400 (RMB 500,000) for clinical testing of the rhTPO drug after the clinical testing permit has been issued by the regulatory authorities.

29

### Item 14. 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-2
Year-end Consolidated Balance Sheets.....	F-3
Year-end Consolidated Statements of Stockholders' Equity.....	F-4
Year-end Consolidated Statements of Operations.....	F-6
Year-end Consolidated Statements of Cash Flows.....	F-7
Notes to Consolidated Financial Statements.....	F-8 thru F-23

(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
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.

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

10.10\*\*\*\* Acquisition Agreement Among Dragon Pharmaceuticals Inc., Alphatech Bioengineering Limited, Longbin Liu and Philip Yuen

30

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

16.1\* Letter Regarding Changes in Certifying Account
23.1 Consents of Moore Stephens Ellis Foster Ltd., Chartered Accountants

-----

\* 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, 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.

(b) Reports on Form 8-K:

None.

31

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 13, 2001

Dragon Pharmaceutical Inc.
a Florida Corporation

/s/ LONGBIN LIU

-----
Longbin Liu, President

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/ LONGBIN LIU

-----
April 13, 2001

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Longbin Liu  
President, Director, Chief Executive  
Officer, Chief Financial Officer and  
Principal Financial Officer

/s/ KEN Z. CAI

-----

April 13, 2001

Ken Z. Cai  
Director

/s/ GREG HALL

-----

April 13, 2001

Greg Hall, Director

Alexander Wick, Director

Philip Yuen Pak Yiu, Director

/s/ DR. YIU KWONG SUN

-----

April 13, 2001

Dr. Yiu Kwong Sun, Director

F-1

DRAGON PHARMACEUTICALS INC.  
& SUBSIDIARIES

Consolidated Financial Statements  
(Expressed in US Dollars)  
December 31, 2000 and 1999

Index

Report of Independent Accountants.....	F-2
Consolidated Balance Sheet.....	F-3
Consolidated Statement of Stockholders' Equity.....	F-4
Consolidated Statement of Operations.....	F-6
Consolidated Statement of Cash Flows.....	F-7
Notes to Consolidated Financial Statements.....	F-8

F-2

MOORE STEPHENS ELLIS FOSTER LTD.  
CHARTERED ACCOUNTANTS

1650 West 1st Avenue  
Vancouver, BC Canada V6J 1G1  
Telephone: (604) 734-1112 Facsimile: (604) 714-5916  
E-Mail: generaldelivery@ellisfoster.bc.ca

-----

# Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders

DRAGON PHARMACEUTICALS INC.  
& SUBSIDIARIES

We have audited the consolidated balance sheets of Dragon Pharmaceuticals Inc. & Subsidiaries ("the Company") as at December 31, 2000 and 1999 and the related consolidated statements of stockholders' equity for the years ended December 31, 2000 and 1999, the consolidated statements of operations and cash flows for the years ended December 31, 2000 and 1999 and the period from February 10, 1998 (inception) to December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2000 and 1999 and the results of their operations and their cash flows for the years ended December 31, 2000 and 1999 and the period from February 10, 1998 (inception) to December 31, 1998 in conformity with generally accepted accounting principles in the United States.

Vancouver, Canada  
February 14, 2001 except as to  
Note 8 which is as of March  
22, 2001 and Note 9 which is as of  
April 6, 2001

"MOORE STEPHENS ELLIS FOSTER LTD."  
Chartered Accountants

F-3

## DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Balance Sheet  
December 31, 2000 and 1999  
(Expressed in US Dollars)

	2000	1999
	-----	-----
ASSETS		
Current		
Cash and cash equivalents	\$ 4,092,702	\$ 617,262
Restricted funds	2,247,613	-

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Accounts receivable	1,166,876	640,743
Subscriptions receivable	-	9,320,000
Inventories	474,041	657,966
Prepaid and deposits	96,934	458,940
	-----	-----
Total current assets	8,078,166	11,694,911
Fixed assets	2,330,349	2,642,313
Investment in Hepatitis B vaccine project - related party	4,000,000	-
Refundable investment deposits - related party	372,000	-
Investment in rhTPO drug project - related party	-	-
Licence and permit	3,766,315	2,402,813
	-----	-----
Total assets	\$ 18,546,830	\$ 16,740,037
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Current

Bank loans	\$ 2,198,280	\$ 616,523
Accounts payable and accrued liabilities	1,435,820	2,535,681
Accounts payable - related parties	-	112,919
Management fees payable - related parties	-	24,000
	-----	-----
Total current liabilities	3,634,100	3,289,123
	-----	-----
Minority interests	929,265	962,146
	-----	-----

Commitments (Note 15)

Stockholders' Equity

Share capital

Authorized: 50,000,000 common shares at par value of \$0.001 each		
Issued and outstanding: 16,700,000 common shares (1999 - 10,735,000)	16,700	10,735
Additional paid in capital	20,000,897	15,690,734
Accumulated other comprehensive income (loss)	(25,588)	50,049
Accumulated deficit	(6,008,544)	(3,262,750)
	-----	-----
Total stockholders' equity	13,983,465	12,488,768
	-----	-----
Total liabilities and stockholders' equity	\$ 18,546,830	\$ 16,740,037
	=====	=====

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

F-4

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Stockholders' Equity  
 Years Ended December 31, 2000 and 1999  
 (Expressed in US Dollars)



Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

	Common stock Shares	Amount	Additional paid-in capital	Compre- hensive income (loss)	Deficit accumulate
Balance, December 31, 1998	10,000,000	\$ 10,000	\$ 2,201,042	\$ -	\$ (471,7
Issuance of common stock for loan bonus at \$2.125 per share in April, 1999	90,000	90	191,160	-	
Issuance of common stock pursuant to a private placement at \$2.50 per share, net of share issuance costs of \$110,788 in October, 1999	600,000	600	1,388,612	-	
Issuance of common stock for loan bonus at \$2.047 per share in October, 1999	45,000	45	92,070	-	
Allotted 4,258,000 common stock at \$2.50 per share, less commission payable of \$703,150	-	-	9,941,850	-	
Other comprehensive income - foreign currency translation	-	-	-	52,194	
Comprehensive income - net (loss) for the period	-	-	-	(2,791,033)	(2,791,0
Stock option compensation	-	-	1,876,000	-	
Comprehensive income (loss)				\$ (2,738,839)	
Balance, December 31, 1999	10,735,000	\$ 10,735	\$ 15,690,734		\$ (3,262,7

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

F-5

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Stockholders' Equity  
Years Ended December 31, 2000 and 1999  
(Expressed in US Dollars)

Compre-

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

	Common stock Shares	Amount	Additional paid-in capital	Comprehensive income (loss)	Deficit accumulated
Balance, December 31, 1999	10,735,000	\$ 10,735	\$ 15,690,734		\$ (3,262,7
Issued 4,258,000 common shares previously allotted	4,258,000	4,258	(4,258)		
Additional share issuance costs to 4,258,000 common shares issued		-	(5,247)		
Exercise stock options for cash	107,000	107	53,393		
Exercise warrants for cash	1,600,000	1,600	2,498,400		
Allotted 250,000 common shares at \$6.25 per share	-	-	1,562,500		
Stock option compensation	-	-	205,375		
Other comprehensive income - foreign currency translation	-	-	-	(75,637)	
Comprehensive income - net (loss) for the period	-	-	-	(2,745,794)	(2,745,7
Comprehensive income (loss)				\$ (2,821,431)	
Balance, December 31, 2000	16,700,000	\$ 16,700	\$ 20,000,897		\$ (6,008,5

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

F-6

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Operations  
(Expressed in US Dollars)

	January 1 2000 to December 31 2000	January 1 1999 to December 31 1999	February 1 1998 (incept to December 31 1998)
Sales	\$ 3,175,561	\$ 989,539	\$
Cost of sales	902,480	204,473	
Gross profit	2,273,081	785,066	
Selling, general and administrative expenses	(3,946,975)	(1,239,292)	(169,65

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Depreciation of fixed assets and amortization of licence and permit	(515,106)	(203,394)	(11,79)
Write off of land-use right net of unpaid amount	(257,344)	-	
Research expenses	(544,500)	-	
New market development	(279,114)	-	
Provision for doubtful debts	(63,630)	(5,033)	
Loan interest expense	(102,268)	(326,623)	
Stock-based compensation	(205,375)	(1,876,000)	(300,00)
	-----	-----	-----
Operating loss	(3,641,231)	(2,865,276)	(481,45)
Interest income	478,922	19,397	9,73
	-----	-----	-----
Loss before minority interest	(3,162,309)	(2,845,879)	(471,71)
Minority interest	416,515	54,846	
	-----	-----	-----
Net (loss) for the period	\$ (2,745,794)	\$ (2,791,033)	\$ (471,71)
	=====	=====	=====
(Loss) per share			
Basic and diluted	\$ (0.17)	\$ (0.27)	\$ (0.0)
	=====	=====	=====
Weighted average number of common shares outstanding			
Basic and diluted	15,794,871	10,177,452	8,054,79
	=====	=====	=====

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

F-7

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Cash Flows  
(Expressed in US Dollars)

	January 1 2000 to December 31 2000	January 1 1999 to December 31 1999	February 1 1998 (incept to December 3 1998
	-----	-----	-----
Cash flows from (used in) operating activities			
Net (loss) for the period	\$ (2,745,794)	(2,791,033)	\$ (471,71)
Adjustments to reconcile net loss to net cash used in operating activities:			
- loan bonuses	-	283,365	
- stock-based compensation expense	205,375	1,876,000	300,00
- depreciation of fixed assets and amortization of licence and permit	669,031	263,101	11,79
- minority interests	(416,515)	(54,846)	
- loss on disposal of fixed assets	-	12,279	
- write off of land-use right, net of unpaid amount	257,344	-	
- provision for doubtful debts	63,630	5,033	
Changes in non-cash working capital items, net of effect of acquisition of subsidiary:			

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

- accounts receivable	(561,763)	(662,999)	
- inventories	183,925	(385,436)	
- prepaid expenses and deposits	362,006	(266,169)	(192,77)
- accounts payable and accrued liabilities	98,112	902,328	744,63
	-----	-----	-----
	(1,884,649)	(818,377)	391,94
	-----	-----	-----
Cash flows used in investing activities			
Purchase of fixed assets	(900,231)	(339,504)	(891,91
Increase in restricted funds	(2,247,613)	-	
Additional cost of licence	(250,000)	-	
Acquisition of Huaxin, net of cash acquired	-	(2,931,818)	
Investment in Hepatitis B vaccine project	(4,000,000)	-	
Refundable investment deposits	(400,000)	-	
	-----	-----	-----
	(7,797,844)	(3,271,322)	(891,91
	-----	-----	-----
Cash flows from financing activities			
Loan proceeds	1,594,453	613,497	
Proceeds from issuance of shares, net of issuance costs	2,553,500	1,389,212	1,912,67
Proceeds from shares subscribed and allotted in prior period, net of issuance costs	8,611,603	1,325,000	
Funds contributed by minority shareholders	403,380	-	
	-----	-----	-----
	13,162,936	3,327,709	1,912,67
	-----	-----	-----
Foreign exchange loss on cash held in foreign currency	(5,003)	(1,103)	(32,35
	-----	-----	-----
Increase (decrease) in cash and and cash equivalents	3,475,440	(763,093)	1,380,35
Cash and cash equivalents, beginning of period	617,262	1,380,355	
	-----	-----	-----
Cash and cash equivalents, end of period	\$ 4,092,702	617,262	\$ 1,380,35
	=====	=====	=====

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

F-8

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

1. Nature of Business

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

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Allwin was incorporated under the laws of British Virgin Islands on February 10, 1998. Pursuant to a Sino-Foreign Co-operative Company Contract, dated April 18, 1998, Allwin and a Chinese corporation formed a limited liability company under the Chinese law, named as Sanhe Kailong Bio-pharmaceutical Co., Ltd. ("Kailong"), located in Hebei Province, China. Allwin has a 95% interest in Kailong. Pursuant to another Sino-foreign Co-operative Company Contract, dated July 27, 1999, Allwin completed the acquisition of a 75% interest in Nanjing Huaxin Bio-pharmaceutical Co. Ltd. ("Huaxin"). Kailong and Huaxin are in the business of research and development, production and sales of pharmaceutical products in China.

### 2. Significant Accounting Policies

#### (a) Basis of Consolidation

- (i) These consolidated financial statements include the accounts of the Company and its subsidiaries, Allwin, Kailong and Huaxin. All inter-company transactions and balances have been eliminated.
- (ii) Under the terms of Sino-Foreign Joint Venture Contract, Huaxin's board of directors consists of five directors of which the Company has the right to select three directors including the chairman. Except for (1) amending Huaxin's articles of association; (2) liquidating Huaxin; (3) increasing or decreasing Huaxin's registered capital; (4) mortgaging Huaxin's assets; and (5) merging Huaxin, which transactions require unanimous approval by Huaxin's board, the Company controls Huaxin in the ordinary course of business. Because the Company has a controlling financial interest in Huaxin, and controls Huaxin's operations in the ordinary course of business, the Company has accounted for Huaxin using the consolidated method of accounting as opposed to using the equity method.

#### (b) Principles of Accounting

These financial statements are stated in US Dollars and have been prepared in accordance with accounting principles generally accepted in the United States.

F-9

### DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

### 2. Significant Accounting Policies (continued)

#### (c) Fixed Assets

Depreciation is based on the estimated useful lives of the assets and is computed using the straight-line method. Fixed assets are recorded at cost. Depreciation is provided over the following useful lives:

Motor vehicle	10 years
Lab equipment	8 years
Office equipment and furniture	5 years

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Land improvements	10 years
Leasehold improvements	Term of lease (10 years)
Production equipment	10 years

### (d) Foreign Currency Transactions

The parent company, Allwin, Kailong and Huaxin maintain their accounting records in their functional currencies (i.e., U.S. dollars, U.S. dollars, Renminbi Yuan, and Renminbi Yuan, respectively). They translate foreign currency transactions into their functional currency in the following manner.

At the transaction date, each asset, liability, revenue and expense is translated into the functional currency by the use of the exchange rate in effect at that date. At the period end, monetary assets and liabilities are translated into the functional currency by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in operations.

### (e) Foreign Currency Translations

Assets and liabilities of the foreign subsidiaries (whose functional currency is Renminbi Yuan) are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rate. Gain and losses from such translations are included in stockholders' equity, as a component of other comprehensive income.

### (f) Accounting Estimates

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

F-10

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

## 2. Significant Accounting Policies (continued)

### (g) Income Taxes

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", which requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

### (h) Comprehensive Income

In 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. The Company is disclosing this information on its Statement of Stockholders' Equity. Comprehensive income comprises equity except those resulting from investments by owners and distributions to owners. SFAS No. 130 did not change the current accounting treatments for components of comprehensive income.

### (i) Financial Instruments and Concentration of Risks

Fair value of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, term deposits, accounts receivable, bank loans, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The Company is operating in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between U.S. dollars and the Chinese currency RMB. Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and trade receivables, the balances of which are stated on the balance sheet. The Company places its cash in high credit quality financial institutions. Concentration of credit risk with respect to trade receivables are limited due to the Company's' large number of diverse customers in different locations in China. The Company does not require collateral or other security to support financial instruments subject to credit risk.

F-11

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

## 2. Significant Accounting Policies (continued)

### (j) Licence and Permit

Licence and permit, in relation to the production and sales of pharmaceutical products in China, is amortized on a straight-line basis over ten years.

The carrying value of licence and permit is reviewed by management at least annually and impairment losses, if any, are recognized when the expected non-discounted future operating cash flows derived from the related product licence acquired are less than the carrying value of such licence and permit. In the event of an impairment in the licence and permit, the discounted cash flows method is used to arrive at the estimated fair value of such licence and permit.

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

(k) Cash Equivalents

Cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturities of three months or less. As at December 31, 2000, cash equivalents consist of commercial papers and redeemable term deposits.

(l) Inventories

Inventories are stated at the lower of cost and replacement cost with respect to raw materials and the lower of cost and net realizable value with respect to finished goods. Cost includes direct material, direct labour and overheads. Cost is calculated using the first-in, first-out method. Net realizable value represents the anticipated selling price less further costs for completion and distribution.

(m) Revenue Recognition

Sales revenue is recognized upon the delivery of goods to customers.

(n) Stock-based Compensation

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

F-12

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

2. Significant Accounting Policies (continued)

(o) Loss Per Share

Loss per share is computed using the weighted average number of shares outstanding during the period. The Company adopted SFAS No. 128, "Earnings per share". Diluted loss per share is equal to the basic loss per share because common stock equivalents consisting of 4,258,000 warrants and 3,043,000 stock options outstanding at December 31, 2000 are anti-dilutive, however, they may be dilutive in future.

(p) New Accounting Pronouncements

(i) The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 44 in March 2000, which addresses certain practice issues regarding Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. The effective date of the interpretation was July 1, 2000.



## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

If the terms of an option (originally accounted for as a fixed option) are modified during the option term to change the exercise price directly, the modified option should be accounted for as a variable option. Variable grant accounting should be applied to the modified option from the date of the modification until the date of exercise. Consequently, the final measurement of compensation expense would occur at the date of exercise. The cancellation of an option and the issuance of a new option with a lower exercise price shortly thereafter (e.g., within six months) to the same individual should be considered in substance a modified (variable) option.

The Company has no such modified option and, accordingly, the pronouncement would have nil effect on the Company's financial statements.

- (ii) In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires companies to recognize all derivatives contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

Historically, the Company has not entered into derivatives contracts either to hedge existing risks or for speculative purposes. Accordingly, the Company does not expect adoption of the new standards on July 1, 2000 to affect its financial statements.

F-13

### DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

#### 3. Acquisition of Nanjing Huaxin Bio-pharmaceutical Co. Ltd. ("Huaxin")

Huaxin, a Chinese company, which the Company owns 75%, was formed to acquire the following assets and liabilities from another Chinese company engaged in the development, production and sale of Recombinant Human Erythropoietin Injection drugs in China. The Company paid US\$3,000,000 cash for its 75% interest on June 11, 1999. The allocation of the acquisition costs, based on appraised values as at June 11, 1999, are as follows:

Cash and cash equivalents	RMB	750,000	US\$	90,909
Inventories		2,808,382		340,410
Fixed assets		12,397,202		1,502,691
Licence and permit		20,602,798		2,497,309
Accounts payable		(3,558,382)		(431,319)

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Net assets	RMB	----- 33,000,000 =====	US\$	----- 4,000,000 =====
75% thereof	RMB	----- 24,750,000 =====	US\$	----- 3,000,000 =====

The operating results of Huaxin, commencing June 11, 1999, are included in the statement of operations.

The following summarized proforma information assumes the acquisition had occurred on January 1, 1998:

	1999	1998
	-----	-----
Sales	\$ 1,315,972	\$ 519,309
Net (loss)	\$ (2,327,063)	\$ (602,265)
(Loss) per share - basic and diluted	\$ (0.23)	\$ (0.07)
	-----	-----
4. Restricted Funds		
	2000	1999
	-----	-----
Term deposits held as collateral against bank loans	\$ 1,736,328	\$ -
Restricted for use in acquisition of fixed assets	511,285	-
	-----	-----
	\$ 2,247,613	\$ -
	=====	=====

F-14

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

5. Accounts Receivable		
	2000	1999
	-----	-----
Trade receivable	\$ 996,100	\$ 624,468
Allowance for doubtful accounts	(40,663)	(5,033)
	-----	-----
Other receivable	955,437	619,435
	211,439	21,308
	-----	-----
	\$ 1,166,876	\$ 640,743
	=====	=====

6. Inventories		
	2000	1999
	-----	-----

Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Raw materials	\$ 72,033	\$ 66,071
Finished goods	391,469	326,599
Work in progress	10,539	265,296
	-----	-----
	\$ 474,041	\$ 657,966
	=====	=====

7. Fixed Assets

	2000		
	Cost	Accumulated depreciation	Net book value
	-----	-----	-----
Motor vehicles	\$ 100,309	\$ 15,752	\$ 84,557
Office equipment and furniture	202,242	57,746	144,496
Leasehold improvements	952,364	119,234	833,130
Production and lab equipment	1,598,360	330,194	1,268,166
	-----	-----	-----
	\$ 2,853,275	\$ 522,926	\$ 2,330,349
	=====	=====	=====

F-15

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

7. Fixed Assets (continued)

	1999		
	Cost	Accumulated depreciation	Net book value
	-----	-----	-----
Motor vehicle	\$ 41,039	\$ 2,655	\$ 38,384
Land lease	924,784	29,285	895,499
Office equipment and furniture	114,182	24,292	89,890
Land improvements	14,755	3,020	11,735
Leasehold improvements	729,791	33,915	695,876
Production equipment	1,109,181	198,252	910,929
	-----	-----	-----
	\$ 2,933,732	\$ 291,419	\$ 2,642,313
	=====	=====	=====

Depreciation expenses were \$269,125, \$130,835 and \$11,797 for the periods ended December 31, 2000, 1999 and 1998, respectively. All fixed assets are located in China.

8. Investment in Hepatitis B Vaccine Project - Related Party

- (a) Pursuant to an agreement dated October 6, 2000, the Company paid \$4,000,000 for the acquisition of certain assets and technology relating to the production of Hepatitis B vaccine. The vendor of the

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

transaction is a company named Alphatech Bioengineering Limited, incorporated in Hong Kong, and one of the two shareholders of which is a director and senior officer of the Company.

(b) Subsequent to the year-end and pursuant to an amended agreement dated March 22, 2001, in the event that the Company failed to find a joint venture partner, establish a production facility for the vaccine project or sell the project to a third party within nine months from the date of this amended agreement, Dr. Longbin Liu, a senior officer and director of the Company and one of the shareholders of Alphatech, demands to repurchase the project from the Company. The repurchase price will be \$4.0 million payable as follows:

- (i) \$500,000 at the date of repurchase; and
- (ii) the balance to be paid within eighteen (18) months of the date of repurchase with interest at 6% per annum. The interest will be accrued from six months after the date of repurchase.

F-16

### DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

#### 9. Refundable Investment deposits - Related Party

Guangzhou Recomgen Biotech Co. Ltd.	
- Tissue Plasminogen Activator ("TPA") Project	\$ 400,000
Less: Valuation allowance	(28,000)
	-----
	\$ 372,000
	=====

During fiscal year 2000, the Company paid \$400,000 to Guangzhou Recomgen Biotech Co. Ltd. ("Guangzhou Recomgen"), a company incorporated in China, for the funding of its TPA research and development programs with the intention of acquiring the technology. Guangzhou Recomgen is controlled by a senior officer and a director of the Company. Subsequent to the year-end, due to financial market and economic conditions, the Company decided not to proceed with the funding and the acquisition. In accordance with the agreement, Guangzhou Recomgen and its principals agreed to refund the \$400,000 before September 30, 2001.

#### 10. Investment in rhTPO Drug Project - Related Party

Pursuant to an agreement dated August 15, 1999, the Company 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. A director and senior officer of the Company is a principal shareholder of Kelong. The Company's maximum commitment to this project is US\$543,540 (RMB 4,500,000).

Under the terms of the agreement, Kelong and the Company will jointly own the drug licence of rhTPO. Kelong and the Company will then obtain its own individual production permit of the rhTPO drug product. The Company 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

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

research expense. The Company has to pay the remaining US\$60,400 (RMB 500,000) for clinical testing of the rhTPO drug after the clinical testing permit has been issued by the regulatory authorities.

F-17

### DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

#### 11. Bank Loans

	2000	1999
	-----	-----
RMB 3,000,000, bearing interest at 5.85% per annum and due on July 31, 2001	\$ 362,354	\$ 369,914
RMB 2,000,000, bearing interest at 5.85% per annum and due on August 15, 2001	241,570	246,609
RMB 7,800,000, bearing interest at 5.85% per annum and due on January 26, 2001. The loan is secured by the term deposit	942,120	-
RMB 4,000,000, bearing interest at 5.58% per annum and due on June 11, 2001. The loan is secured by the term deposit.	483,138	-
RMB 1,400,000 bearing interest at 5.58% per annum and due on June 11, 2001. The loan is secured by the term deposits	169,098	-
	-----	-----
Total	\$ 2,198,280	\$ 616,523
	=====	=====

The Company has arranged for a refinancing of the RMB 7.8 million loan subsequent to the year-end. The loan is now bearing interest at 5.265% per annum, due on January 31, 2002 and secured by the term deposit.

The weighted average interest rate was 5.79% and 5.85% for the years ended December 31, 2000 and 1999, respectively.

F-18

### DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

#### 12. Income Taxes

- (a) Kailong and Huaxin are subject to income taxes in China on its taxable income as reported in its statutory accounts at a tax rate in accordance with the relevant income tax laws applicable to Sino-foreign equity joint venture enterprises. However, pursuant to the same income tax laws, Kailong and Huaxin are fully exempt from income tax for five years starting from their first profit-making year followed by a 15% corporation tax rate for the next three years.

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Allwin is not subject to income taxes.

As at December 31, 2000, the parent company, Kailong and Huaxin have estimated losses, for tax purposes, totalling approximately \$2,284,000, which may be applied against future taxable income. Accordingly, there is no tax expense charged to the Statement of Operations for the year ended December 31, 2000. The potential tax benefits arising from these losses have not been recorded in the financial statements. The Company evaluates its valuation allowance requirements on an annual basis based on projected future operations. When circumstances change and this causes a change in management's judgement about the realizability of deferred tax assets, the impact of the change on the valuation allowance is generally reflected in current income.

- (b) The tax effect of temporary differences that give rise to the Company's deferred tax asset (liability) are as follows:

	2000 -----	1999 -----
Tax loss carryforwards	\$ 776,560	\$ 361,000
Stock-based compensation	70,000	638,000
Less: valuation allowance	(846,560)	(999,000)
	-----	-----
	\$ -	\$ -
	=====	=====

A reconciliation of the federal statutory income tax to the Company's effective income tax rate is as follows:

	2000 -----	1999 -----
Federal statutory income tax rate	34%	34%
Change in valuation allowance	(34%)	(34%)
	-----	-----
Effective income tax rate	-	-
	=====	=====

F-19

### DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

#### 13. Stock Options and Warrants

##### (a) Stock Option Plans

On December 16, 1998, the Company adopted a Stock Option Plan ("the 1998 Plan") for grant of options to directors of the Company to purchase up to 1,200,000 common stocks. Options granted under the 1998 Plan will be exercisable from the date of grant for a period of five years at an exercise price of \$0.50 per share. Half of the options granted vested immediately at the date of grant. The remaining half of the options granted would vest upon the Company achieving the ability to produce commercially acceptable and revenue generating products.

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

On November 5, 1999, the Company granted options to another two directors of the Company to purchase up to 200,000 common stocks under the same conditions as the 1998 Plan. On December 20, 1999, the Company announced that it has achieved the ability to produce commercially acceptable and revenue-generating products and the remaining half of the options granted (i.e., 550,000 shares) under the 1998 Plan have become vested.

On June 15, 1999, the Company adopted another Stock Option Plan ("the 1999 A Plan") for the grant of options to an employee of the Company to purchase up to 50,000 common stocks at an exercise price of \$0.50 per share. Options granted under the 1999 A Plan will be exercisable from the date of grant for a period of two years. Half of the respective options granted vested immediately at the date of grant. The remaining half of the options granted would vest upon the Company's share price closes at a price of US \$5 or greater for five (5) consecutive days. On January 14, 2000, the Company's share price closed at a price of \$5 for five consecutive days at \$5.313 per share. Therefore, the remaining 25,000 common stocks granted under the 1999 A Plan became vested.

On November 5, 1999 and November 9, 1999, the Company adopted another Stock Option Plan ("the 1999 B Plan") for the grant of options to employees and consultants of the Company to purchase up to 75,000 common stocks and 235,000 common stocks, respectively. Options granted under the 1999 B Plan were vested immediately and will be exercisable from the dates of grant for a period of five years at an exercise price of \$0.50 per share.

On November 9, 1999, the Company adopted another Stock Option Plan ("the 1999 C Plan") for the grant of options to employees and consultants of the Company to purchase up to 20,000 common stocks and 40,000 common stocks, respectively. Options granted under the 1999 C Plan were vested immediately and will be exercisable from the date of grant for a period of five years at an exercise price of \$2.50 per share.

F-20

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

### 13. Stock Options and Warrants (continued)

#### (a) (continued)

On January 5, 2000, the Company adopted another Stock Option Plan ("the 2000 A Plan") for the grant of options to consultants of the Company to purchase up to 35,000 common stocks at an exercise price of \$0.50 per share for a period of five years. Options granted under the 2000 A Plan vest over a period of two-year period at a rate of 20% upon grant, 40% on the first anniversary of grant, 40% on the second anniversary of grant.

On February 22, 2000, the Company adopted another Stock Option Plan ("the 2000 B Plan") for the grant of options to an employee of the Company to purchase up to 7,500 common stocks at an exercise price of

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

\$7 per share for a period of five years. Half of the options granted under the 2000 B Plan were vested immediately and the remaining half will be exercisable when the Company's share price closes at a price of \$9 for five consecutive days. The plan was subsequently cancelled during the year.

On February 22, 2000, the Company adopted another Stock Option Plan ("the 2000 C Plan") for the grant of options to an employee of the Company to purchase up to 100,000 common stocks at an exercise price of \$7 per share for a period of five years. All of the options granted under the 2000 C Plan were vested immediately. The plan was subsequently cancelled during the year.

On November 13, 2000, the Company granted directors, employees and a consultant of the Company to purchase up to 1,125,000 common stocks, 460,000 common stocks and 10,000 common stocks, respectively. Options granted to directors and employees of the Company were vested immediately and will be exercisable from the date of grant for a period of five years at an exercise price of \$3.125 per share. Options granted to a consultant of the Company was vested immediately and exercisable from the date of grant for a period of 2 years at an exercise price of \$3.125 per share.

The Company charged \$205,375 and \$1,876,000 to income in the 2000 and 1999 fiscal years, respectively, on vested options having an exercise price below the fair value of the Company's stock on the date of grant.

F-21

### DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

#### Notes to Consolidated Financial Statements

December 31, 2000 and 1999

(Expressed in US Dollars)

#### 13. Stock Options and Warrants (continued)

##### (b) Summary of Stock Option Activities

The following is a summary of the stock option outstanding as at December 31, 2000:

	Shares	Weighted Average Exercise Price
Options outstanding at February 10, 1998	-	\$ -
Granted	1,200,000	\$ 0.50
Options outstanding at December 31, 1998	1,200,000	\$ 0.50
Cancelled	(300,000)	\$ 0.50
Granted	620,000	\$ 0.69
Options outstanding at December 31, 1999	1,520,000	\$ 0.58
Granted	1,737,500	\$ 3.31
Forfeited	(107,500)	\$ 7.00
Exercised	(107,000)	\$ 0.50



Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

Options outstanding at December 31, 2000	3,043,000	\$ 1.89
--	-----------	---------

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.01 - \$1.00	1,428,000	3.24	\$0.50	1,400,000	\$0.50
\$2.01 - \$3.00	20,000	3.86	\$2.50	20,000	\$2.50
\$3.01 - \$4.00	1,595,000	4.85	\$3.13	1,595,000	\$3.13
	3,043,000	4.09	\$1.89	3,015,000	\$1.90

The following table summarizes information about options granted during the year ended December 31, 2000:

	Weighted Average Exercise Price	Weighted Average Fair Value
Exercise price equals market price at grant date	\$3.37	\$0.01
Exercise price is below market price at grant date	\$0.50	\$4.54

The weighted average fair value of the options granted during the year ended December 31, 2000 was \$0.11.

F-22

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

13. Stock Options and Warrants (continued)

(c) The Company accounts for its stock-based compensation plan in accordance with APB Opinion No. 25, under which no compensation is

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

recognized in connection with options granted to employees except if options are granted with a strike price below fair value of the underlying stock. The Company adopted the disclosure requirements SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, the Company is required to calculate and present the pro forma effect of all awards granted. For disclosure purposes, the fair value of each option granted to an employee has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.5%, dividend yield 0%, volatility of 89%, and expected lives of approximately 0 to 2 years. Based on the computed option values and the number of the options issued, had the Company recognized compensation expense, the following would have been its effect on the Company's net loss:

	2000 -----	1999 -----	1998 -----
Net (loss) for the period:			
- as reported	\$ (2,745,794)	\$ (2,791,033)	\$ (471,717)
- pro-forma	(2,746,378)	(2,791,033)	(471,717)
	-----	-----	-----
Basic and diluted (loss) per share:			
- as reported	\$ (0.17)	(0.27)	(0.06)
- pro-forma	\$ (0.17)	(0.27)	(0.06)
	-----	-----	-----

(d) Share purchase warrants outstanding as at December 31, 2000:

Number of Warrants	Underlying Shares	Exercise Price Per Share	Expiry Date
-----	-----	-----	-----
4,258,000	4,258,000	\$2.50	March 1, 2001

### 14. Related Party Transactions

(a) The Company incurred the following expenses to the directors:

	2000 -----	1999 -----	1998 -----
Management fees	\$72,000	\$96,000	\$72,000
	=====	=====	=====

(b) see Notes 8, 9 and 10.

F-23

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements  
December 31, 2000 and 1999  
(Expressed in US Dollars)

## Edgar Filing: DRAGON PHARMACEUTICALS INC - Form 10-K

### 15. Commitment

The Company has entered into an operating lease agreement with respect to Huaxin's production plant in Nanjing, China for an amount of RMB 3,000,000 (approximately US\$362,350) per annum until June 11, 2009. Minimum payments required under the agreement are as follows:

2002	3,000,000	362,350
2003	3,000,000	362,350
2004	3,000,000	362,350
2005	3,000,000	362,350
2006	3,000,000	362,350
2007 - 2009	7,375,000	890,780
	-----	-----
Total	RMB 22,375,000	US\$2,702,503
	=====	=====

### 16. Non-cash Financing Activities

During the year, 250,000 common shares were allotted for additional licence and permit costs.

### 17. Comparative Figures

Certain 1999 and 1998 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2000.