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DRAGON PHARMACEUTICALS INC
Form 10QSB/A
November 23, 2004

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

Form 10-QSB/A
Amendment No. 1

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number 0-27937

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

Florida
(State or other jurisdiction of
incorporation or organization)

65-0142474
(IRS Employer Identification No.)

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

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

(Former address if changed since last report)

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

Number of shares of common stock outstanding as of June 30, 2004: 20,582,000

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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DRAGON PHARMACEUTICAL INC.
& SUBSIDIARIES

Consolidated Financial Statements
(Unaudited - Prepared by Management)
(Expressed in U.S. Dollars)
June 30, 2004

Index

Consolidated Balance Sheets

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Operations

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2004 and December 31, 2003
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

| | As Res |
|--|-----------|
| | (see note |
| | June 30 |
| <hr/> | |
| ASSETS | |
| Current | |
| Cash and short term securities | \$ 2, |
| Accounts receivable | 1, |
| Inventories | 1, |
| Due from director | |
| Prepaid and deposits | |
| <hr/> | |
| Total current assets | 5, |
| Fixed assets | 1, |
| Due from related party - Hepatitis B vaccine project | |
| Patent rights - related party | |
| Licence and permit and other assets | 2, |
| <hr/> | |
| Total assets | \$ 10, |

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=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Current

Accounts payable and accrued liabilities 1,

Commitments (Note 12)

Stockholders' Equity

Share capital

Authorized: 50,000,000 common shares at
par value of \$0.001 each

Issued and outstanding: 20,582,000 common shares

Additional paid in capital 26,

Accumulated other comprehensive (loss) (

Accumulated deficit (17,6

Total stockholders' equity 9,

Total liabilities and stockholders' equity \$ 10,

=====

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

3

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Expressed in U.S. Dollars)

| | Common stock | | Additional paid-in capital | Compre- hensive income (loss) | acc |
|---|--------------|----------|----------------------------------|--|-------|
| | Shares | Amount | | | |
| Balance, December 31, 2002 | 20,334,000 | \$20,334 | \$26,644,998 | - | \$(14 |
| Exercise of stock options for cash | 128,000 | 128 | 63,872 | - | |
| Components of comprehensive income (loss) | | | | | |
| - foreign currency translation | - | - | - | 3,004 | |
| - net (loss) for the year | - | - | - | (1,994,735) | (1 |
| Comprehensive (loss) | | | | \$ (1,991,731) | |

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| | | | | | |
|----------------------------|------------|----------|--------------|-------|-------|
| Balance, December 31, 2003 | 20,462,000 | \$20,462 | \$26,708,870 | ===== | \$ (1 |
|----------------------------|------------|----------|--------------|-------|-------|

=====

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

4

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
 Consolidated Statements of Stockholders' Equity
 (Expressed in U.S. Dollars)

| | Common stock | | Additional | Compre- | |
|---|--------------|----------|--------------|-------------|--------|
| | Shares | Amount | paid-in | hensive | acc |
| | | | capital | income | |
| | | | | (loss) | |
| Balance, December 31, 2003 | 20,462,000 | \$20,462 | \$26,708,870 | - | \$ (16 |
| Exercise of stock options for cash | 120,000 | 120 | 59,880 | | |
| Components of comprehensive income (loss) | | | | | |
| - foreign currency translation | - | - | - | (838) | |
| - net (loss) for the period | - | - | - | (637,428) | |
| Comprehensive (loss) | | | | \$(638,266) | |
| Balance, June 30, 2004 | 20,582,000 | \$20,582 | \$26,768,750 | ===== | \$ (1 |

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

5

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
 Consolidated Statement of Operations
 (Expressed in U.S. Dollars)
 (Unaudited - Prepared by Management)

| | Three Months | Three Months |
|-------|--------------|--------------|
| | Ended | Ended |
| | June 30, | June 30, |
| | 2004 | 2003 |
| Sales | \$908,145 | \$1,007,686 |

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| | | |
|--|--------------|--------------|
| Cost of sales | 194,755 | 326,988 |
| ----- | | |
| Gross profit | 713,390 | 680,698 |
| Selling, general and administrative expenses | (784,051) | (723,743) |
| Depreciation of fixed assets and amortization of licence and permit and land-use right | (179,412) | (183,896) |
| Net write off of land-use right and fixed assets | - | - |
| Research and development expenses | (151,472) | - |
| New market development | (12,404) | (8,234) |
| Provision for doubtful debts | 6,257 | (10,701) |
| Interest expense | (747) | (929) |
| Stock-based compensation | - | - |
| ----- | | |
| Operating loss | (408,439) | (246,805) |
| Interest income | 20,435 | 10,381 |
| ----- | | |
| Net (loss) for the period | \$ (388,004) | \$ (236,424) |
| ===== | | |
| (Loss) per share | | |
| Basic and diluted | \$ (0.02) | \$ (0.01) |
| ===== | | |
| Weighted average number of common shares outstanding | | |
| Basic and diluted | 20,560,022 | 20,334,000 |
| ===== | | |

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

6

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
 Consolidated Statements of Cash Flows
 Six Months Ended June 30, 2004 and 2003
 (Expressed in U.S. Dollars)
 (Unaudited - Prepared by Management)

Cash flows from (used in) operating activities

| | | |
|--------------------------------------|----|-------|
| Net (loss) for the period | \$ | (637, |
| Adjustments to reconcile net loss to | | |

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| | |
|---|----------|
| net cash used in operating activities: | |
| - depreciation of property and equipment and amortization of licence and permit | 473 |
| - provision for doubtful debts | 20 |
| Changes in non-cash working capital items: | |
| - accounts receivable | (162, |
| - inventories | 40, |
| - prepaid expenses and deposits | 46 |
| - accounts payable and accrued liabilities | (102, |
| ----- | |
| | (401, |
| ----- | |
| Cash flows used in investing activities | |
| Purchase of property and equipment | (20, |
| (Increase) in other assets | (155, |
| (Increase) decrease in restricted funds | |
| ----- | |
| | (175, |
| ----- | |
| Cash flows from financing activities | |
| Issuance of common shares | 60 |
| Loan proceeds | |
| ----- | |
| | 60 |
| ----- | |
| Foreign exchange (gain) loss on cash held in foreign currency | |
| ----- | |
| | (|
| ----- | |
| Decrease in cash and cash equivalents | (518, |
| Cash and cash equivalents, beginning of period | 3,126 |
| ----- | |
| Cash and cash equivalents, end of period | \$ 2,608 |
| ===== | |

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

7

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

1. Significant Accounting Development

As disclosed in Note 17, the Company is restating its Consolidated Balance Sheet as at June 30, 2004 to reinstate an allotment of 250,000 common shares. The shares were allotted fulfil the Company's obligation to its Sanhe Kailong Bio-pharmaceutical Limited Joint Venture partner as a result of the Company decision to pursue the development of manufacturing and selling EPO through Nanjing Huaxin Bio-phamacuetical Co. Ltd. instead of

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Sanhe Kailong Bio-pharmaceutical.

For purposes of the Form 10-QSB/A, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, the Company has amended and restated in its entirety each item of the Form 10-QSB that was affected by the restatement. In order to preserve the nature and character of the disclosures provide in the Form 10-QSB as they were originally, filed, no attempt was made to modify or update any disclosures except those required to reflect the effects of the restatement.

2. Basis of Presentation

The accompanying unaudited interim consolidated balance sheets, statements of operations and cash flows reflected all adjustments, consisting of normal recurring adjustments and other adjustments, that are, in the opinion of management, necessary for a fair presentation of the financial position of the Company, at June 30, 2004, and the results of operations and cash flows for the interim periods ended June 30, 2004 and 2003.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instruction for Form 10-QSB pursuant to the rules and regulations of Securities and Exchange Commission and, therefore, do not include all information and notes normally provided in audited financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2003 included in the annual report previously filed on Form 10-KSB.

The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

3. Proposed Business Combination

The Company has entered into a definitive Share Purchase Agreement with Oriental Wave Holding Ltd. ("Oriental") whereby the Company would issue its common shares in exchange for all the issued and outstanding shares of Oriental. The transaction is subject to approval by the Company's shareholders and the regulatory authorities.

If the acquisition is consummated, the former shareholders of Oriental will own 68.35% of the issued and outstanding shares of the combined Company resulting in accounting principles applicable to reverse acquisition being applied to record the transaction. Under this basis of accounting, Oriental would be the acquirer and, accordingly, the consolidated entity would be considered to be a continuation of Oriental with the net assets of the Company deemed to have been acquired and recorded at fair market value.

8

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

4. Accounts Receivable

| | June 30, 2004 | December 31, 2003 |
|--|------------------|----------------------|
|--|------------------|----------------------|

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| | | |
|---------------------------------|--------------|--------------|
| Trade receivables | \$ 1,683,549 | \$ 1,524,465 |
| Allowance for doubtful accounts | (326,967) | (298,284) |
| ----- | | |
| | 1,356,582 | 1,226,181 |
| Other receivables | 51,088 | 39,495 |
| ----- | | |
| | \$ 1,407,670 | \$ 1,265,676 |
| ===== | | |

5. Inventories

| | | |
|------------------|--------------|--------------|
| | June 30, | December 31, |
| | 2004 | 2003 |
| ----- | | |
| Raw materials | \$ 112,109 | \$ 129,650 |
| Finished goods | 106,160 | 107,833 |
| Work in progress | 912,578 | 852,981 |
| ----- | | |
| | \$ 1,130,847 | \$ 1,090,464 |
| ===== | | |

6. Due from director

The Company entered into an agreement with Dr. Longbin Liu, a director of the Company, to settle the amount owing to the Company from his acquisition of the Hepatitis B Project (note 7) as well as cancel the Patent (note 8) and Project Development (note 12) agreements between the parties. Under the terms of the settlement agreement, the G-CSF, Insulin and Hepatitis B Projects, including the rights of ownership and development obligations would revert to Dr. Liu.

In exchange, Dr Liu will pay to the Company the \$3,710,000 in principal and interest owing under the Hepatitis B Project as well as reimburse the Company \$1,330,000 that had been paid previously under the Patent and Project Development agreements. All amounts are due December 31, 2004 and Dr. Liu has agreed to provide 2,600,000 common shares of the Company, to be held in escrow, as security for the amounts owing, of which 2,200,000 common shares have been placed in escrow as of June 30, 2004. The warrants granted to Dr. Liu under the Patent Development agreement have been cancelled.

The carrying value of the amount due from Dr. Liu is equivalent to the previous carrying value of the Patent Rights and the Hepatitis B Project amount owing.

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

7. Property and equipment

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June 30, 2004

| | Cost | Accumulated depreciation |
|--------------------------------|--------------------|--------------------------|
| Motor vehicles | \$ 126,444 | \$ 77,731 |
| Office equipment and furniture | 412,688 | 256,629 |
| Leasehold improvements | 1,088,528 | 479,646 |
| Production and lab equipment | 1,630,604 | 794,094 |
| Idle equipment | 555,339 | 293,254 |
| | <u>\$3,813,603</u> | <u>\$1,901,354</u> |

December 31, 2003

| | Cost | Accumulated depreciation |
|--------------------------------|---------------------|--------------------------|
| Motor vehicles | \$140,423 | \$ 75,996 |
| Office equipment and furniture | 414,759 | 221,076 |
| Leasehold improvements | 1,089,006 | 418,888 |
| Production and lab equipment | 1,595,450 | 708,841 |
| Idle equipment | 555,339 | 280,824 |
| | <u>\$ 3,794,977</u> | <u>\$ 1,705,625</u> |

For the six-months ended June 30, 2004, depreciation expenses totalled \$197,589 (2003 - \$201,374). The majority of fixed assets are located in China.

8. Due from Related Party - Hepatitis B Vaccine Project

| | June 30, 2004 | December 31, 2003 |
|-----------------------------|------------------|----------------------|
| Hepatitis B Vaccine Project | \$ - | \$4,000,000 |
| Less : Repayment | - | (500,000) |
| Valuation allowance | - | (3,499,900) |
| | <u>\$ -</u> | <u>\$ 100</u> |

(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 transaction was a company named Alphatech Bioengineering Limited, incorporated in Hong Kong, with two shareholders who are both directors of the Company.

(b) Pursuant to an amended agreement dated June 5, 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 the amended agreement, Dr. Longbin Liu, a director of the Company (and President and CEO of the Company at the time of the transaction) and one of the shareholders of Alphatech, demanded to repurchase the project from the Company. The repurchase price of \$4.0 million is payable as follows:

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10

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
 Notes to Consolidated Financial Statements
 June 30, 2004
 (Expressed in U.S. Dollars)
 (Unaudited - Prepared by Management)

8. Due from Related Party - Hepatitis B Vaccine Project (Continued)

- (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.

In April 2002, the Company decided not to pursue the project and Dr. Liu has repurchased the project on the agreed terms.

The amount owing by Dr. Liu to the Company was unsecured. The Company chose, given the significant amount involved and the lack of security, to conservatively value the amount owing and set up a provision in fiscal 2002 for the full amount, less a nominal amount of \$100. Dr. Liu defaulted on repayment in September 2003 but subsequently renegotiated repayment terms with the Company (see note 5).

9. Patent Rights - Related Party

Pursuant to an agreement dated January 14, 2002, the Company entered into a Patent Development Agreement with the Dr. Longbin Liu, a director of the Company (and President and CEO of the Company at the time of the transaction) and a company controlled by the Dr. Liu entitling the Company to acquire one patent filed in the United States related to the discovery of a new gene or protein. Consideration for the right to acquire the patent was payment of \$500,000 (paid) and the issuance of warrants to acquire 1,000,000 common shares of the Company at a price of \$2.50 per share for a period of five years. The patent may be acquired prior to January 14, 2005 at no additional cost other than the reasonable legal costs of obtaining the patent.

The issuance and exercise of the warrants to acquire 1,000,000 common stock of the Company is contingent upon the success of the patent applications. The \$500,000 will be refunded to the Company if no patent applications have been filed by January 14, 2005. The Company has reached settlement with Dr. Liu on this and other projects (note 5) and the warrants have been cancelled

10. Licence and permit and other assets

| | June 30, 2004 | December 31, 2003 |
|--------------------------|------------------|----------------------|
| Original cost | \$5,012,582 | \$5,012,582 |
| Accumulated amortization | (2,364,404) | (2,088,384) |
| Licence and permit | 2,648,178 | 2,924,198 |
| Other assets | 155,000 | - |

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\$2,803,178 \$ 2,924,198
=====

Amortization expense for the licence and permit for the six-months ended June 30, 2004 was \$275,975 (2003 - \$275,956)

11

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

10. Licence and permit and other assets (Continued)

The estimated amortization expense for each of the five succeeding fiscal years is as follows:

| | | |
|------|-----------------------|-----------|
| 2004 | (balance of the year) | \$276,000 |
| 2005 | | \$552,000 |
| 2006 | | \$552,000 |
| 2007 | | \$552,000 |
| 2008 | | \$552,000 |

The above amortization expense forecast is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of licence and permit, and other events.

11. 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.

Allwin and Biotrade are not subject to income taxes. As at June 30, 2004, \$3.9 million of unremitted earnings attributable to international companies were considered to be indefinitely invested. No provision has been made for taxes that might be payable if these earnings were remitted to the United States. The Company's intention is to reinvest these earnings permanently or to repatriate the earnings when it is tax effective to do so. It is not practicable to determine the amount of incremental taxes that might arise were these earnings to be remitted.

As at June 30, 2004, the Company has estimated losses, for tax purposes, totalling approximately \$10,100,000, which may be applied against future taxable income. 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:

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| | June 30, 2004 | December 31, 2003 |
|--|------------------|----------------------|
| Tax losses carried forward | \$ 3,451,000 | \$ 3,237,000 |
| Stock-based compensation | 6,400 | 6,400 |
| Provision for amount owing from Hepatitis B Vaccine Project | 1,118,000 | 1,118,000 |
| Less: valuation allowance | (4,575,400) | (4,361,400) |
| | \$ - | \$ - |

12

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

11. Income Taxes (Continued)

A reconciliation of the federal statutory income tax to the Company's effective income tax rate, for the three months ended June 30, 2004 and 2003 are as follows:

| | 2004 | 2003 |
|-----------------------------------|-------|-------|
| Federal statutory income tax rate | 34% | 34% |
| Benefit of loss carry forward | (34%) | (34%) |
| Effective income tax rate | - | - |

12. Stock Options and Warrants

(c) Stock Options Plans

There were no options granted during the six months ended June 30, 2004.

The following is a summary of the employee stock option information for the period ended June 30, 2004:

| | Shares | Weight Exer |
|--|-------------|----------------|
| Options outstanding at December 31, 2002 | 3,288,000 | \$ |
| Granted | 500,000 | \$ |
| Forfeited | (1,061,000) | \$ |
| Exercised | (128,000) | \$ |
| Options outstanding at December 31, 2003 | 2,599,000 | \$ |

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| | | |
|--------------------------------------|-----------|----|
| Forfeited | (482,500) | \$ |
| Exercised | (120,000) | \$ |
| ----- | | |
| Options outstanding at June 30, 2004 | 1,996,500 | \$ |
| ===== | | |

| Options Outstanding | | | Options Exercised | |
|--------------------------|--------------------|---|---------------------------------|--------------------|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable |
| \$0.01 - \$1.00 | 588,500 | 2.39 | \$ 0.61 | 563,500 |
| \$1.01 - \$2.00 | 308,000 | 2.82 | \$ 1.70 | 308,000 |
| \$2.01 - \$3.00 | 25,000 | 0.361 | \$ 2.50 | 25,000 |
| \$3.01 - \$4.00 | 1,075,000 | 1.372 | \$ 3.13 | 1,075,000 |
| ----- | | | ----- | |
| | 1,996,500 | 1.88 | \$ 2.16 | 1,971,500 |
| | ===== | ===== | ===== | ===== |

13

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

12. Stock Options and Warrants (Continued)

The Company accounts for its stock-based compensation plan in accordance with APB Opinion No. 25, under which no compensation is recognized in connection with options granted to employees except if options are granted with a strike price below fair value of the underlying stock. The Company adopted the disclosure requirements SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, the Company is required to calculate and present the pro forma effect of all awards granted. For disclosure purposes, the fair value of each option granted to an employee has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.5%, dividend yield 0%, volatility of 90%, and expected lives of approximately 0 to 5 years. 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:

| | | |
|-------|----------|----------|
| | June 30, | June 30, |
| | 2004 | 2003 |
| ----- | | |

Net (loss) for the period:

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| | | |
|---------------|--------------|--------------|
| - as reported | \$ (663,616) | \$ (970,452) |
| - pro-forma | \$ (663,616) | \$ (970,452) |

Basic and diluted (loss) per share:

| | | |
|---------------|-----------|-----------|
| - as reported | \$ (0.03) | \$ (0.05) |
| - pro-forma | \$ (0.03) | \$ (0.05) |

(b) Warrants

Share purchase warrants outstanding as at June 30, 2004:

| Number of Warrants | Underlying Shares | Exercise Price Per Share | Expiry Date |
|-----------------------|----------------------|-----------------------------|-------------------|
| 50,000 | 50,000 | \$1.70 | November 15, 2004 |

13. Related Party Transactions

(a) The Company incurred the following expenses to a director of the Company:

| | June 30, 2004 | June 30, 2003 |
|-----------------|---------------|---------------|
| Management fees | \$- | \$40,000 |

(b) Pursuant to an agreement dated January 14, 2002, the Company entered into a Project Development Agreement with Dr. Longbin Liu ("Dr. Liu"), a director of the Company (and President and CEO of the Company at the time of the transaction) to continue the research and development of G-CSF and Insulin for the Company. The Company will make payment for the development of G-CSF as follows:

14

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

13. Related Party Transactions (Continued)

- (i) \$500,000 to be provided at the commencement of the research in the G-CSF Project (paid);
- (ii) \$500,000 to be provided when cell-line and related technology is established and animal experimentation commences in the G-CSF Project;
- (iii) \$300,000 to be provided when a permit for clinical trials for G-CSF has been issued by the State Drug Administration of China ("SDA");
- (iv) \$200,000 to be provided when a new drug license for G-CSF is issued to Dragon by the SDA; and

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- (v) \$500,000 to be paid as a bonus if the SDA issues the new drug license for Insulin to Dragon before January 14, 2005.

The Company will make payment for the development of Insulin as follows:

- (i) \$750,000 to be provided by at the commencement of the research in the Insulin Project (paid);
- (ii) \$750,000 to be provided when cell-line and related technology is established and animal experimentation commences in the Insulin Project (paid);
- (iii) \$300,000 to be provided when a permit for clinical trials for Insulin has been issued by the SDA;
- (iv) \$200,000 to be provided when a new drug license for Insulin is issued to Dragon by the SDA; and
- (v) \$500,000 to be paid as a bonus if the SDA issues the new drug license for Insulin to Dragon before January 14, 2005.

For both the G-CSF and Insulin Projects:

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

As at June 30, 2004, the Company has paid a total of \$1,500,000 and \$500,000 towards the Insulin and G-CSF Projects, respectively. The Company has paid an additional \$100,000 to a company controlled by Dr. Liu to produce Insulin samples for drug registration purposes. The Company has reached settlement with Dr. Liu on this and other projects (note 5).

- (b) see Notes 5, 6, and 7 also.

15

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

14. Commitments

(a) The Company has entered into operating lease agreements with respect to Huaxin's production plant in Nanjing, China for an amount of \$326,200 (RMB 2,700,000) per annum until June 11, 2009, and the Company's administrative offices in Vancouver for an amount escalating from \$136,000 to \$157,000 (CDN\$200,000 to CDN\$230,000) per annum until March 31, 2007. Minimum

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payments required under the agreements are as follows:

| | |
|---|--------------|
| 2004 | \$ 246,782 |
| 2005 | 494,835 |
| 2006 | 498,684 |
| 2007 | 369,646 |
| 2008 | 326,205 |
| 2009 | 144,738 |
| <hr style="border-top: 1px dashed black;"/> | |
| Total | \$ 2,080,889 |
| <hr style="border-top: 3px double black;"/> | |

(b) The Company has contracted with a European Institute of Biotechnology, which may develop a high yield proprietary cell line and production process technology for the Company. Product from this most advanced technology will be used by the Company to enter the European market, once certain competitor's patents expire. The total cost of development will be \$609,000 (EUROS 500,000) of which \$365,000 (EUROS 300,000) remains unpaid at June 30, 2004.

15. Segmented Information

The Company operates exclusively in the biotech sector. The Company's assets and revenues are distributed as follows:

| | June 30, 2004 | December 31, 2003 |
|---|-----------------------------------|-----------------------------------|
| <hr style="border-top: 1px dashed black;"/> | | |
| ASSETS | | |
| North America | \$ 2,932,489 | \$3,156,953 |
| China | 6,696,907 | 7,079,241 |
| Other | 525,913 | 899,858 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total | \$ 10,455,309 | \$11,136,052 |
| <hr style="border-top: 3px double black;"/> | | |
| | Six months ended June 30, 2004 | Six months ended June 30, 2003 |
| <hr style="border-top: 1px dashed black;"/> | | |
| REVENUE | | |
| North America | \$ - | \$ - |
| China | 1,359,515 | 1,031,242 |
| Other | 429,490 | 640,767 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total | \$1,786,415 | \$ 1,672,009 |
| <hr style="border-top: 3px double black;"/> | | |

16. Comparative Figures

Certain 2003 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2004.

17. Restatement

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These financial statements have been restated to reinstate the 250,000 common shares that were previously allotted to the Company's Sanhe Kailong Bio-pharmaceutical Limited. ("Kailong") Joint Venture partner.

Kailong was a Joint Venture through which the Company would manufacture and sell its EPO in China. Kailong was created to grant the Company's Joint Venture partner a 25% interest in the Company's EPO business in China. The Company then determined that it would take too long to bring Kailong into production and instead, acquired Nanjing Huaxin Bio-pharmaceutical Co. Ltd. ("Huaxin") which had an existing production facility and the required manufacturing licenses and sales permits.

In March 2000, the Company entered into an agreement with its Kailong Joint Venture partner to fulfil the Company's obligation to allow the Kailong Joint Venture partner to participate in the Company's EPO business and to eliminate the Joint Venture partner's claim to a 25% interest in Huaxin. Under the agreement, the Company agreed to pay \$250,000 and issue 250,000 common shares of the Company. The Company accounted for the transaction at the time by recording the shares allotted at the share price in effect at the time. The cash was paid in the year 2000, but the shares have not yet been issued.

In the second quarter of 2004, the Company was finalizing the share exchange agreement with Oriental Wave Holding Limited ("Oriental Wave") in which the Company would be required to issue shares to Oriental Wave based on the current shares outstanding and on obligations to issue shares in the future. At that time, the Company reversed the original allotment of the 250,000 shares on the basis that Kailong was going to be dissolved and the shares were not going to be issued.

It has subsequently been determined that the Company is still required to issue the 250,000 shares to its Kailong Joint Venture partner and the financial statements have been amended to reinstate the 250,000 common shares that were previously allotted.

17

DRAGON PHARMACEUTICAL INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

17. Restatement (Continued)

As a result of the foregoing the Consolidated Balance Sheet of the Company has been restated as follows:

| | As of June 30, 2004 | |
|-------------------------------------|---------------------|---------------------|
| | Restated | Previously Reported |
| Total current assets | \$ 5,739,882 | \$ 5,739,882 |
| Fixed assets | 1,912,249 | 1,912,249 |
| Licence and permit and other assets | 2,803,178 | 1,240,678 |

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| | | |
|--|---------------|--------------|
| Total assets | \$ 10,455,309 | \$ 8,892,809 |
| ----- | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable and accrued liabilities | \$ 1,325,780 | \$ 1,325,780 |
| ----- | | |
| Share capital | 20,582 | 20,582 |
| Additional paid in capital | 26,768,750 | 25,206,250 |
| Accumulated other comprehensive (loss) | (32,845) | (32,845) |
| Accumulated deficit | (17,626,958) | (17,626,958) |
| ----- | | |
| Total stockholders' equity | 9,129,529 | 7,567,029 |
| ----- | | |
| Total liabilities and stockholders' equity | \$ 10,455,309 | \$ 8,892,809 |
| ===== | | |

The correction of the above did not have any effect on the Consolidated Balance Sheet as of December 31, 2003 or the Consolidated Statements of Operations or Cash Flows for either the six months ended June 30, 2004 or 2003.

18

PART II. OTHER INFORMATION

Item 6. Exhibits.

(a) Exhibits.

Exhibit No.

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

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

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

Signatures

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment Number 1 to Form 10-QSB for the quarterly period ended June 30, 2004 to be signed on its behalf by the undersigned, thereunto duly authorized.

DRAGON PHARMACEUTICAL INC.
(registrant)

Dated: November 22, 2004

/s/ Matthew Kavanagh

Matthew Kavanagh
Director of Finance and Corporate
Compliance and Corporate Secretary

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(Duly authorized Officer and
Principal Financial Officer)

19

EXHIBIT 31.1

Section 302 Certification of Principal Executive Officer

I, Alexander Wick, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Dragon Pharmaceutical Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Omitted
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other

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employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 22, 2004

/s/ Alexander Wick

Alexander Wick, President and
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Section 302 Certification of Principal Financial Officer

I, Matthew Kavanagh, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Dragon Pharmaceutical Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Omitted

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 22, 2004

/s/ Matthew Kavanagh

Matthew Kavanagh,
Principal Financial Officer

EXHIBIT 32

CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF
TITLE 18, UNITED STATES CODE)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), each of the undersigned officers of Dragon Pharmaceutical Inc., a Florida corporation (the "Company"), does hereby certify with respect to the Quarterly Report of the Company on Form 10-QSB for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission (the "Form 10-QSB") that, to the best of their knowledge:

(1) the Form 10-QSB fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Form 10-QSB fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 22, 2004

/s/ Alexander Wick

Alexander Wick
President and Chief Executive Officer

Dated: November 22, 2004

/s/ Matthew Kavanagh

Matthew Kavanagh
Principal Financial Officer