DRAGON PHARMACEUTICALS INC
Form 10-Q
August 14, 2002

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

Form 10-Q

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

For the quarterly period ended June 30, 2002

Commission file number 0-27937

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

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

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

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

(Former address if changed since last report)

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

Number of shares of common stock outstanding as of June 30, 2002: 20,331,000

Part 1. Financial Information
Item 1. Financial Statements

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2002
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

		Ju
ASSETS		
Current		
Cash and short term securities	$	3,6
Accounts receivable		9
Inventories		1,1
Prepaid and deposits		2
Total current assets		5,9
Fixed assets		2,5
Hepatitis B vaccine project - related party		3,2
Refundable investment deposits - related party		
Patent rights - related party		5
Licence and permit		3,7
Total assets	$	16,0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Current		
Bank loans	$	6
Accounts payable and accrued liabilities		1,2
Management fees payable - related parties		
Total current liabilities		1,9
Minority interests		
Commitments (Note 13)		

Stockholders' Equity		
Share capital Authorized: 50,000,000 common shares at par value of $0.001 each Issued and outstanding: 20,331,000 common shares (December 31, 2001 - 20,331,000)		
Additional paid in capital		26,6
Accumulated other comprehensive (loss)		(2
Accumulated deficit		(12,50
Total stockholders' equity		14,1
Total liabilities and stockholders' equity	$	16,0

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

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

	Common Stock Shares	Amount	Additional paid-in capital	Compre-hensive income (loss)	Def accumul
Balance, December 31, 2000	16,700,000	$ 16,700	$ 20,000,897	-	$ (6,008,
Exercise of stock options for cash	131,000	131	65,369	-	
Issuance of common stock pursuant to a private placement at $2.00 per share, net of share issuance costs of $490,000 in September	3,500,000	3,500	6,506,500	-	
Other comprehensive income - foreign currency translation	-	-	-	580	
Comprehensive (loss) - net (loss) for the year	-	-	-	(3,735,305)	(3,735
Stock option compensation	-	-	51,975	-	

Comprehensive (loss)				(3,734,725)	
Balance, December 31, 2001	20,331,000	$ 20,331	$ 26,624,741		$ (9,743

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

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
(Expressed in U.S. Dollars)
((Unaudited - Prepared by Management)

	Common Stock Shares	Amount	Additional paid-in capital	Compre- hensive income (loss)	Defi accumula
Balance, December 31, 2001	20,331,000	$ 20,331	$ 26,624,741	-	$ (9,743,
Other comprehensive income - foreign currency translation	-	-	-	(4,098)	
Comprehensive (loss) - net (loss) for the year	-	-	-	(2,762,745)	(2,762,
Comprehensive (loss)				$ (2,766,843)	
Balance, June 30, 2002	20,331,000	$ 20,331	$ 26,624,741		$(12,506,

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

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Operations

(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Sales	$ 1,026,159	$ 602,341
Cost of sales	174,465	155,726
Gross profit	851,694	446,615
Selling, general and administrative expenses	(1,316,578)	(1,288,609)
Depreciation of fixed assets and amortization of licence and permit and land-use right	(180,449)	(154,515)
Net write off of land-use right and fixed assets	-	-
Research expenses	(1,015,796)	(26,537)
New market development	(109,735)	9,709
Provision for doubtful debts	(54,693)	(42,000)
Loan interest expense	(15,605)	(38,313)
Stock-based compensation	-	-
Operating loss	(1,841,162)	(1,093,650)
Interest income	16,295	54,985
Loss before minority interest	(1,824,867)	(1,038,665)
Minority interest	-	65,952
Net (loss) for the period	$(1,824,867)	$ (972,713)
(Loss) per share Basic and diluted	$ (0.09)	$ (0.06)
Weighted average number of common shares outstanding Basic and diluted	20,331,000	16,717,657

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

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Cash Flows
Six Months Ended June 30, 2002 and 2001
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

		2002
Cash flows from (used in) operating activities		
Net (loss) for the period	$	(2,762,7
Adjustments to reconcile net loss to net cash used in operating activities:		
- stock-based compensation expense		
- depreciation of fixed assets and amortization of licence and permit and land-use right		362,
- minority interests		
- net write off of land-use right and fixed assets		1,
- provision for doubtful debts		80,
Changes in non-cash working capital items:		
- accounts receivable		240,
- inventories		(81,8
- prepaid expenses and deposits		(82,7
- accounts payable and accrued liabilities		(79,5
- management fees payable - related parties		(138,1
		(2,461,1
Cash flows used in investing activities		
Purchase of fixed assets		(133,4
(Increase) decrease in restricted funds		2,449,
Acquisition of Patent rights		(500,0
Acquisition of balance of Huaxin		(1,400,0
Refundable investment deposits		400,
Recovery from Hepatitis B Vaccine Project		500,
		1,316,
Cash flows from financing activities		
Loan proceeds		(2,234,8
Proceeds from issuance of shares		
Proceeds from shares subscribed and allotted in prior period, net of issuance costs		
Funds contributed by minority shareholders		

		(2,234,8
Foreign exchange (gain) loss on cash held in foreign currency		(4,3
Increase (decrease) in cash and and cash equivalents		(3,383,8
Cash and cash equivalents, beginning of period		6,306,
Cash and cash equivalents, end of period	$	2,922,

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

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2002
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

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.

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"). In January 2002, the Company acquired the balance of Huaxin for $1,400,000. Kailong is inactive and Huaxin is in the business of research and development, production and sales of pharmaceutical products in China. Allwin Biotrade Inc. ("Biotrade) was incorporated under the laws of British Virgin Islands on June 6, 2000 for the purpose of marketing and distributing biopharmaceutical products outside China. Dragon Pharmaceuticals (Canada) Inc. ("Dragon Canada") was incorporated in British Columbia, Canada on September 15, 2000 for the purpose of researching and developing new biopharmaceutical products.

2. Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, Allwin, Kailong, Huaxin, Biotrade and Dragon Canada. All inter-company transactions and balances have been eliminated.

(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 of America.

(c) Fixed Assets

Depreciation is based on the estimated useful lives of the assets and is computed using the straight-line method.

2. Significant Accounting Policies (continued)

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

(d) Foreign Currency Transactions

The parent company, Allwin, Kailong, Huaxin, Biotrade and Dragon Canada maintain their accounting records in their functional currencies (i.e., U.S. dollars, U.S. dollars, Renminbi Yuan, Renminbi Yuan, U.S. dollars and Canadian dollars 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 or Canadian dollars) 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.

(g) Advertising Expenses

The Company expenses advertising costs as incurred. There were no advertising expenses incurred by the Company during the period ended June 30, 2002 and 2001.

2. Significant Accounting Policies (continued)

(h) 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 usingenacted tax rates in effect in the years in which the differences are expected to reverse.

(i) Comprehensive Income

The Company has 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.

(j) 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 places its cash and cash equivalents with high credit quality financial institutions. The Company occasionally maintains balances in a financial institution beyond the insured amount. As of June 30, 2002, the Company had deposits of $690,000 above insured limits.

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.

2. Significant Accounting Policies (continued)

(k) 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 impairment in the value of the licence and permit, the discounted cash flows method is used to arrive at the estimated fair value of such licence and permit.

(l) Cash and Cash Equivalents

Cash equivalents usually consist of highly liquid investments that are readily convertible into cash with maturities of three months or less. As at June 30, 2002, cash equivalents consist of commercial papers and redeemable term deposits.

(m) 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.

(n) Revenue Recognition

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

(o) 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.

(p) 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 options to acquire 3,702,000 common shares and warrants to acquire 3,200,000 common shares that are outstanding at June 30, 2002 are anti-dilutive, however, they may be dilutive in future.

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2002
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

2. Significant Accounting Policies (continued)

(q) New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations. SFAS 141 applies to all business combinations initiated after June 30, 2001. The SFAS 141 applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The adoption of SFAS 141 will not have an impact on the Company's financial statements.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001 with earlier application permitted for entities with fiscal years beginning after March 15, 2001 provided that the first interim financial statements have not been previously issued. The Statement is required to be applied at the beginning of the entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements to that date. The adoption of SFAS 142 will not have an impact on the Company's financial statements.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 (SFAS 143), Asset Retirement Obligations. SFAS 143 establishes accounting standards for recognition and measurement of a liability for the costs of assets retirement obligations. Under SFAS 143, the costs of retiring an asset will be recorded as a liability when the retirement obligation arises and will be amortized to expense over the life of the asset. The adoption of SFAS 143 will not have an impact on the Company's financial statements.

In October, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-lived Assets. SFAS 144 supersedes SFAS 121, Accounting for the Impairment of Long-lived Assets and Long-lived Assets to be Disposed Of, and APB Opinion 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for segments of a business to be disposed of. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS 144 will not have an impact on the Company's financial statements

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2002
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

3. Restricted Funds

	June 30, 2002
Term deposits held as collateral against bank loans	$ 690,000
Cash and cash equivalents	2,922,284
Cash and short term securities	$ 3,612,284

4. Accounts Receivable

	June 30, 2002
Trade receivable	$ 1,083,259
Allowance for doubtful accounts	(206,567)
	876,692
Other receivable	84,371
	$ 961,063

5. Inventories

	June 30, 2002
Raw materials	$ 116,788
Finished goods	158,417
Work in progress	902,530
	$ 1,177,735

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
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6. Fixed Assets

	June 30, 2002	
	Cost	Accumulated depreciation
Motor vehicles	$140,430	$39,705
Office equipment and furniture	374,168	115,959
Leasehold improvements	1,010,306	275,739
Production and lab equipment	2,090,998	603,822
	$ 3,615,902	$1,035,225

	December 31, 2001	
	Cost	Accumulated depreciation
Motor vehicles	$100,329	$31,657
Office equipment and furniture	267,104	85,935
Leasehold improvements	990,940	221,652
Production and lab equipment	2,020,137	504,657
	$3,378,510	$843,901

For the six months ended June 30, 2002, depreciation expenses totalled $146,489 (2001-$79,881). The majority of fixed assets are located in China.

7. Hepatitis B Vaccine Project - Related Party

	June 30, 2002
Hepatitis B Vaccine Project	$4,000,000
Less : Repayment	(500,000)
Valuation allowance	(210,000)
	$3,290,000

(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 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.

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
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7. Hepatitis B Vaccine Project - Related Party (continued)

(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 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.

The Company decided not to pursue the Project and Dr. Liu demanded to repurchase the Project on the agreed terms.

8. Refundable Investment deposits - Related Party

	June 30, 2002
Guanzhou Recomgen Biotech Co. Ltd. - Tissue Plasminogen Activator ("TPA") Project	-
Less: Valuation allowance	-
	-

During the 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 a senior officer and a director of the Company. The Company decided not to proceed with the funding and the acquisition due to financial market and economic conditions and the $400,000 was repaid in January 2002.

9. Patent Rights - Related Party

Pursuant to an agreement dated January 14, 2002, the Company entered into a Patent Development Agreement with the President and a company controlled by the President 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 US$500,000 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.

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
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10. Bank Loans

	June 30, 2002
RMB 7,800,000, bearing interest at 5.265% per annum and due on January 31, 2003. The loan is secured by the term deposit.	$ -
RMB 4,000,000, bearing interest at 5.265% per annum and due on August 20, 2002. The loan is secured by the term deposit.	483,307
RMB 1,400,000 bearing interest at 5.265% per annum and due on July 26, 2002. The loan is secured by the term deposit.	169,158
RMB 2,300,000 bearing interest at 5.265% per annum and due on January 18, 2002. The loan is secured by the term deposit.	-
RMB 3,150,000 bearing interest at 5.265% per annum and due on April 4, 2002. The loan is secured by the term deposit.	-
RMB 3,700,000 bearing interest at 5.265% per annum and due on June 19, 2002. The loan is secured by the term deposit.	-
RMB 1,555,000 bearing interest at 5.265% per annum and due on January 31, 2003. The loan is secured by the term deposit.	-
Total	$652,465

The weighted average interest rate was 5.265% and 5.32% for the six months ended June 30, 2002 and 2001.

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
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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 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.

Allwin is not subject to income taxes.

As at June 30, 2002, the parent company, Kailong and Huaxin have estimated losses, for tax purposes, totalling approximately $7,790,000, which may be applied against future taxable income. Accordingly, there is no tax expense charged to the Statement of Operations for the six months ended June 30, 2002 and 2001. 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:

	June 2
Tax losses carried forward	$ 2,650,
Stock-based compensation	
Less: valuation allowance	(2,650,
	$

A reconciliation of the federal statutory income tax to the Company's effective income tax rate, for the six months ended June 31, 2002 and 2001, is as follows:

	2002
Federal statutory income tax rate	34
Change in valuation allowance	(34%
Effective income tax rate	-

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements

June 30, 2002
(Expressed in U.S. Dollars)
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12. Stock Options and Warrants

(a) Stock Options Plans

The Company charged $51,975 to income during the six months ended June 30, 2001 due to the exercise price of the vested options granted being below fair value of the Company's stock on the date of the grant. During the six months ended June 30, 2002, the Company granted options to purchase 920,000 shares at a price of $1.70 per share, expiring April 25, 2007.

The following is a summary of the employee stock option information for the period ended June 30, 2002:

	Shares
Options outstanding at December 31, 2000	3,043,000
Granted	195,000
Forfeited	(137,500)
Exercised	(131,000)
Options outstanding at December 31, 2000	2,969,500
Granted	920,000
Forfeited	(187,500)
Options outstanding at June 30, 2002	3,702,000

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.01 - $1.00	1,257,000	1.79	$ 0.50	1,243,000	$ 0.50
$1.01 - $2.00	1,095,000	4.70	$ 1.71	1,095,000	$ 1.71
$2.01 - $3.00	60,000	2.36	$ 2.50	60,000	$ 2.50

$3.01 - $4.00	1,290,000	3.35	$ 3.13	1,290,000	$ 3.13
	3,702,000	3.21	$ 1.81	3,688,000	$ 1.81

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
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June 30, 2002
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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 89%, 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, 2002
Net (loss) for the period:	
- as reported	$(2,762,745)
- pro-forma	(2,762,745)
Basic and diluted (loss) per share:	
- as reported	$(0.14)
- pro-forma	$(0.14)

(b) Warrants

Share purchase warrants outstanding as at June 30, 2002:

Number of Warrants	Underlying Shares	Exercise Price Per Share	Expir
400,000	400,000	$3.00	Novem
3,500,000	1,750,000	$2.00	Septe
50,000	50,000	$1.70	Novem
1,000,000	1,000,000	$2.50	Janua

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13. Related Party Transactions

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

	June 30, 2002	June 30, 2001
Management fees	$115,000	$60,000

(b) Pursuant to an agreement dated January 14, 2002, the Company entered into a Project Development Agreement with the President and Chief Executive Officer of the Company (the "President") 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:

(i) US$500,000 to be provided at the commencement of the research in the G-CSF Project;

(ii) US$500,000 to be provided when cell-line and related technology is established and animal experimentation commences in the G-CSF Project; and

(iii) US$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"); and

(iv) US$200,000 to be provided when a new drug license for G-CSF is issued to Dragon by the SDA.

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

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

(vi) US$750,000 to be provided by at the commencement of the research in the Insulin Project;

(vii) US$750,000 to be provided when cell-line and related technology is established and animal experimentation commences in the Insulin Project;

(viii) US$300,000 to be provided when a permit for clinical trials for Insulin has been issued by the SDA; and

(ix) US$200,000 to be provided when a new drug license for Insulin is issued to Dragon by the SDA.

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

13. Related Party Transactions (continued)

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 by or four years with respect to the Insulin Project or if the SDA rejects the Project for technical or scientific reasons or If development of the Project is terminated by the President, then the President will refund to the Company all amounts paid, without interest or deduction, with respect to the Project within six months.

As at June 30, 2002, the Company has paid $1,500,000 and $250,000 towards the Insulin and G-CSF Projects, respectively.

(c) see Notes 7,8, and 9 also.

14. Commitments

The Company has entered into operating lease agreements with respect to Huaxin's production plant in Nanjing, China for an amount of RMB 2,700,000 (US$326,000) per annum until June 11, 2009, and the Company's administrative offices in Vancouver for an amount escalating from CDN$200,000 to CDN$230,000 (US$126,000 to US$145,000) per annum until March 31, 2007. Minimum payments required under the agreements are as follows:

2002	$ 235,269
2003	458,513
2004	473,936
2005	475,069
2006	478,467
2007 - 2009	835,558

Total	$2,956,811

15. Comparative Figures

Certain 2001 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2002.

Item 2. Management's Discussion and Analysis or Plan of Operation

The following discusses the Company's financial condition and results of operations based upon the Company's consolidated financial statements which have been prepared in accordance with generally accepted accounting principles. It should be read in conjunction with the Company's financial statements and the notes thereto and other financial information included in the Company's Form 10-KSB for the fiscal year ended December 31, 2001.

Overview

The Company (or "Dragon") was formed on August 22, 1989, under the name First Geneva 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. 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. On September 21, 1998, First Geneva Investments changed its name to Dragon Pharmaceutical Inc.

On July 27, 1999, Dragon acquired a 75% interest in Nanjing Huaxin Bio-pharmaceutical Co. Ltd. ("Huaxin"), which manufactures EPO in China. The Company increased the efficiencies in the production of EPO by improving a proprietary high-yield mammalian cell line and "vectoring process" which has been developed by Dragon. The Company successfully achieved commercial production during the last quarter of calendar1999. In January 2002 the Company purchased the balance of Huaxin for $1,400,000.

On September 6, 2000 Dragon incorporated Allwin Biotrade Inc. ("Biotrade"). Biotrade was incorporated for the purpose of marketing and distributing biopharmaceutical products outside China. On September 15, 2000 Dragon incorporated Dragon Pharmaceuticals (Canada) Inc. ("Dragon Canada"). Dragon Canada was incorporated for the purpose of researching and developing new biopharmaceutical products.

Results of Operations

Revenues. Revenue is generated from the sale of EPO in China by Huaxin and throughout the developing world by Biotrade. Revenue for the three-month period ending June 30, 2002 was $1,026,159 compared to $602,341 for the three-month period ending June 30, 2001. Sales in and outside of China were $826,659 and $199,500, respectively during the three-month period ending June 30, 2002. All sales during the three-month period ending June 30, 2001 were in China. Cost of sales for the three-months ended June 30, 2002 of $174,465 is attributed to the production costs of the pharmaceutical products. The cost of sales for the three-months ended June 30, 2001 was $155,726. The gross profit margin of 83% for the three-month period ending June 30, 2002 and 85% for the six-month period ending June 30, 2002 increased from 74% and 76% for the three-month and six-month periods, respectively, ending June 30, 2001. The profit margin has increased as a result of improved production efficiency.

Revenue for the six-month period ending June 30, 2002 was $2,398,966 compared to $1,266,755 for the six-month period ending June 30, 2001. Sales in and outside of China were $1,351,966 and $1,047,000, respectively during the six-month period ending June 30, 2002. All sales during the six-month period ending June 30, 2001 were in China. Cost of sales for the six-months ended June 30, 2002 and

2001 were $364,989 and $302,647, respectively.

Interest income is related primarily to interest earned on cash received from the private placement of common stock received during the third quarter of 2001 and the last quarter of 1999. Interest income for the three-months period ending June 30, 2002 was $16,295 compared to $54,985 for the three-month period ended June 30, 2001. Interest income for the six-months period ending June 30, 2002 was $49,902 compared to $120,243 for the six-month period ended June 30, 2001.

Interest income has decreased as the cash balance has decreased through the funding of operations.

Expenses. Total operating expenses for the three-months ended June 30, 2002 were $2,692,855. The major expenses incurred in the first quarter of 2002 were research and development expenses of $1,015,796 and the selling expenses of $473,911 representing 38% and 18% of total expenses, respectively. The remaining major expense items are represented by administrative expenses.

Significant operating expenses for the three-months ended June 30, 2002 included consulting fees of $162,543, loan interest of $15,605, rent of $109,906, salaries and benefits of $124,270, $184,100 in travel costs and management fees of $58,443. Management fees include $57,500 incurred to two directors for services during the first quarter of 2002.

Other significant expenses for the first half of 2002 include the depreciation of fixed assets and amortization of license and permit of $180,449.

Comparatively, total operating expenses for the second quarter of 2001 were $1,540,264. Selling expenses represented 27% total operating expenses during this period. Other major expenses for the three-month period ended June 30, 2001 included the depreciation of fixed assets and amortization of intangible assets of $154,515, consulting fees of $105,402, bad debt write offs of $42,000, loan interest of $38,313, rent of $86,638, salaries of $106,073 and management fees of $69,146, including management fees of $42,000 paid to two director for services rendered during the period.

Total operating expenses for the six-months ended June 30, 2002, were $4,846,624. The major expenses incurred in the second quarter of 2002 were research and development expenses of $1,771,368 and the selling expenses of $951,1071 representing 37% and 20% of total expenses, respectively. The remaining major expense items are represented by administrative expenses.

Significant operating expenses for the six-months ended June 30, 2002 included bad debt write offs of $80,549, consulting fees of $311,280, loan interest of $56,015, rent of $171,452, salaries and benefits of $265,956, $262,490 in travel costs and management fees of $132,636. Management fees include $115,000 paid to two directors for services during the six-months ended June 30, 2002.

Other significant expenses for the second half of 2002 include the depreciation of fixed assets of and amortization of license and permit and land-use rights of $362,107 and new market development of $162,323.

Comparatively, total operating expenses for the six-months ended June 30, 2001, were $3,082,759. The major expense incurred in the second quarter of 2001

related to the selling of pharmaceutical products and represented approximately 32% of total expenses. The remaining major expense items are represented by administrative expenses.

Significant operating expenses for the six-months ended June 30, 2001 included auditing and accounting expense of $82,848, bad debt write offs of $78,825 consulting fees of $227,725, investor relations of $274,166, loan interest of $72,306, rent of $157,968, salaries and benefits of $204,315, $119,376 in travel costs and management fees of $104,271. Management fees include $60,000 paid to two directors for services during the six-months ended June 30, 2001.

Other significant expenses for the second quarter of 2001 include the depreciation of fixed assets of and amortization of license and permit and land-use rights of $308,329 new market development of $90,171 and stock based compensation of $51,975.

Overall, expenditures have increased in 2002 over 2001 levels due to increased research and development and increased personnel and activity levels.

Net and Comprehensive Loss. Dragon had a net loss and a comprehensive loss of $1,824,867 for the three-month period ending June 30, 2002.

The Company's net loss for the three-month period ended June 30, 2001, was $972,713, which includes a minority interest loss of $65,952. The comprehensive loss for the same period was $1,038,665.

Dragon had a net loss and a comprehensive loss of $2,762,745 for the six-month period ending June 30, 2002.

The Company's net loss for the six-month period ended June 30, 2001, was $1,828,896, which includes a minority interest loss of $169,512. The comprehensive loss for the same period was $1,998,408.

Basic and Diluted Net Loss Per Share

The Company'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 three-month and six-month periods ended June 30, 2002. The loss per share for the three-month period ended June 30, 2002 was $0.09 and the loss per share for the six-month period ended June 30, 2002 was $0.14. Common stock issuable upon the exercise of common stock options and common stock warrants have been excluded from the net loss per share calculations as their inclusion would be anti-dilutive.

Liquidity and Capital Resources

Dragon is a development stage pharmaceutical and biotechnological company that has commenced the manufacture and marketing of pharmaceutical products in China through its 100% equity interest in Nanjing Huaxin Bio-pharmaceuticals Ltd. Previously, the Company has raised funds through equity financings to fund its operations and to provide working capital. The Company may finance future operations through additional equity financings.

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.

One million common shares were issued through the exercise of warrants that expired on September 30, 2000. These warrants were issued to shareholders through the acquisition of Allwin Newtech on August 17, 1998. Gross proceeds from the exercise of the warrants were $1,000,000.

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

As of June 30, 2002, the Company had $3,612,284 in cash available, of which $690,000 is held as collateral for loans totaling RMB5,400,000 (US$652,465). This cash, the $961,063 in accounts receivable and anticipated sales will be used to fund the ongoing operations and research and development.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk, primarily related to foreign exchange. The Company maintains its accounting records in their functional currencies (i.e., U.S. dollars, Renminbi Yuan, and Canadian dollars 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.

The following table sets forth the percentage of the Company's administrative expense by currency for the years ended December 31, 1999 and 2000 and the six-months ended June 30, 2001 and 2002.

By Currency

	December 31,2000	December 31, 2001
U.S. Dollar	22%	31%
Canadian Dollar	0%	12%
Renminbi yuan	78%	57%
Total	100%	100%

	June 30,2001	June 30, 2002
U.S. Dollar	76%	26%
Canadian Dollar	0%	48%
Renminbi yuan	24%	26%
Total	100%	100%

Such administrative expense by currency may change from time to time. Further, the Company incurred expenses in China of $1,350,069 and $1,334,159 for the six-months ended June 30, 2001 and 2002, respectively, all of which were paid in RMB.

The Company has not entered into any material foreign exchange contracts to minimize or mitigate the effects of foreign exchange fluctuations on the Company's operations. The Company exchanges Canadian dollars to fund its Chinese operations. Based on prior years, the Company does not believe that it is subject to material foreign exchange fluctuations. However, no assurance can be given that this will not occur in the future.

As disclosed in Note 10 to the Company's financial statements, the Company has entered into a series of loans in the aggregate outstanding amount of $652,465 as of June 30, 2002. The weighted average interest rate was 5.265% for the six-months ended June 30, 2002. These loans are due on July 26, 2002 and August 20, 2002. To the extent that there may be increased interest rates during this period, the Company will be adversely affected.

PART II. OTHER INFORMATION

Items 1, 2, 3, 4 and 5

None.

Item 6.

(a) Exhibit 99.1 Chief Executive Officer certification
(b) Exhibit 99.2 Chief Financial Officer certification

(b) Reports on 8-K

None.

Signature

In accordance with the requirements 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.

DRAGON PHARMACEUTICALS INC.
(registrant)

Dated: August 13, 2002

/s/ Matthew Kavanagh

Matthew Kavanagh
Director of Finance and Corporate Compliance and Corporate Secretary (and authorized to sign on behalf of the registrant)

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, (the Report) by Dragon Pharmaceutical, Inc. (the Company), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Longbin Liu

Dr. Longbin Liu
Chief Executive Officer

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, (the Report) by Dragon Pharmaceutical, Inc. (the Company), the undersigned, as the Chief Financial Officer of the

Company, hereby certifies pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Matthew Kavanagh

Matthew Kavanagh
Director of Finance and Compliance
(acting Chief Financial Officer)