DRAGON PHARMACEUTICALS INC
Form 10-Q
May 16, 2003

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 March 31, 2003

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	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)

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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12 b-2 of the Exchange act). Yes [ ] No [X]

Number of shares of common stock outstanding as of March 31, 2003: 20,334,000

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Balance Sheets
March 31, 2003
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

	March 3
ASSETS	
Current	
Cash and short term securities	$ 4,
Accounts receivable	
Inventories	1,
Prepaid and deposits	
Total current assets	6,
Fixed assets	2,
Due from related party - Hepatitis B vaccine project	
Patent rights - related party	
Licence and permit	3,
Total assets	$ 12,
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities	
Current	
Bank loans	$
Accounts payable and accrued liabilities	1,
Total current liabilities	1,
Commitments (Note 13)	
Stockholders' Equity	
Share capital	
Authorized: 50,000,000 common shares at par value of $0.001 each	
Issued and outstanding: 20,334,000 common shares	
Additional paid in capital	26,
Accumulated other comprehensive (loss)	(
Accumulated deficit	(15,7
Total stockholders' equity	10,
Total liabilities and stockholders' equity	$ 12,

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		Additional paid-in capital	Compre-hensive income (loss)	D accum
	Shares	Amount			
Balance, December 31, 2001	20,331,000	$ 20,331	$ 26,624,741	-	$ (9,7
Exercise of stock options for cash	3,000	3	1,497	-	
Stock based compensation	-	-	18,760	-	
Components of comprehensive income (loss)					
- foreign currency translation	-	-	-	(10,003)	
- net (loss) for the year	-	-	-	(5,250,946)	(5,2
Comprehensive (loss)				$(5,260,949)	
Balance, December 31, 2002	20,334,000	$ 20,334	$ 26,644,998		$(14,9

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		Additional paid-in capital	Compre-hensive income (loss)	ac
	Shares	Amount			
Balance, December 31, 2002	20,334,000	$ 20,334	$ 26,644,998	-	$(14
Components of comprehensive income (loss) - foreign currency translation	-	-	-	985	
- net (loss) for the year	-	-	-	(734,027)	
Comprehensive (loss)				$ (733,042)	
Balance, March 31, 2003	20,334,000	$ 20,334	$ 26,644,998		$ (15

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

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

	Three Mon Ended Ma 31, 2
Sales	$ 664,
Cost of sales	201,
Gross profit	463,
Selling, general and administrative expenses	(968,
Depreciation of fixed assets and amortization of licence and permit	(185,
Net write off of land-use right and fixed assets	
Research and development expenses	

New market development	(15,
Provision for doubtful debts	(30,
Loan interest expense	(3,
Stock-based compensation	
Operating loss	(740,
Interest income	6,
Net (loss) for the period	$ (734,
(Loss) per share	
Basic and diluted	$ (0
Weighted average number of common shares outstanding	
Basic and diluted	20,334,

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

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

	Three Mo Ended March
Cash flows from (used in) operating activities	
Net (loss) for the year	$ (734
Adjustments to reconcile net loss to net cash used in operating activities:	
- depreciation of fixed assets and amortization of licence and permit	239
- net write off of land-use right and fixed assets	
- provision for doubtful debts	30
Changes in non-cash working capital items:	
- accounts receivable	161
- inventories	(31
- prepaid expenses and deposits	(1

- accounts payable and accrued liabilities	12
- management fees payable - related parties	
	(323
Cash flows used in investing activities	
Purchase of fixed assets	(16
(Increase) decrease in restricted funds	510
Acquisition of Patent rights	
Acquisition of balance of Huaxin	
Refundable investment deposits	
	493
Cash flows from financing activities	
Loan proceeds	(483
Foreign exchange (gain) loss on cash held in foreign currency	
Decrease in cash and cash equivalents	(313
Cash and cash equivalents, beginning of period	4,425
Cash and cash equivalents, end of period	$ 4,112

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

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2003
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

1. 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 March 31, 2003, and the results of operations and cash flows for the interim periods ended March 31, 2003 and 2002.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instruction for Form 10-Q 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, 2002 included in the annual report previously filed on Form 10-K.

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

2. Restricted Funds

	March 31, 2003
Term deposits held as collateral against bank loans	$ -
Cash and cash equivalents	4,112,753
Cash and short term securities	$ 4,112,753

3. Accounts Receivable

	March 31, 2003
Trade receivables	$ 968,243
Allowance for doubtful accounts	(309,745)
	658,498
Other receivables	98,527
	$ 757,025

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2003
(Expressed in U.S. Dollars)
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4. Inventories

	March 31, 2003
Raw materials	$ 130,041
Finished goods	118,575

	991,547
Work in progress	
	$ 1,240,163

5. Fixed Assets

	March 31, 2003	
	Cost	Accumulated depreciation
Motor vehicles	$140,406	$ 57,031
Office equipment and furniture	399,880	163,656
Leasehold improvements	1,066,208	366,168
Production and lab equipment	2,055,433	738,534
	$ 3,661,927	$ 1,352,389

	December 31, 2002	
	Cost	Accumulated depreciation
Motor vehicles	$ 140,388	$ 50,103
Office equipment and furniture	385,462	144,199
Leasehold improvements	1,065,313	336,503
Production and lab equipment	2,052,260	692,005
	$ 3,643,423	$ 1,222,810

For the three months ended March 31, 2003, depreciation expenses totalled $100,987 (2002
The majority of fixed assets are located in China.

6. Due from Related Party - Hepatitis B Vaccine Project

	March 31, 2003

(Expressed in U.S. Dollars)

Hepatitis B Vaccine Project	$4,000,000
Less : Repayment	(500,000)
Valuation allowance	(3,499,900)
	$ 100

(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 this 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:

(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 has repurchased the project on the agreed terms.

The amount owing by Dr. Liu to the Company is unsecured. The Company has chosen, given the significant amount involved and the lack of security, to conservatively value the amount owing and has set up a provision for the full amount, less a nominal amount of $100.

7. 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 US$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 US$500,000 will be refunded to the Company if no patent applications have been filed by January 14, 2005.

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2003
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

8. Licence and permit

	March 31, 2003
Original cost	$5,012,582
Accumulated amortization	1,674,608
	$ 3,337,974

Amortization expenses for the licence and permit for the three months ended March 31, 2003 was $138,021 (2002 - $137,898).

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

2003	$414,000
2004	$552,000
2005	$552,000
2006	$552,000
2007	$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.

9. Bank Loans

	March 31 200

RMB 4,000,000, bearing interest at 3.394% per annum and due on February 26, 2003. The loan was secured by the term deposit.	$
Total	$

The weighted average interest rate was 3.394% and 5.265% for the three months ended March 31, 2003 and 2002.

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2003
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

10. 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 March 31, 2003, $3.5 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 March 31, 2003, the company has estimated losses, for tax purposes, totalling approximately $7,875,000, 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:

	March 31, 2003
Tax losses carried forward	$ 2,675,000
Stock-based compensation	6,400

Provision for amount owing from Hepatitis B Vaccine Project	1,118,000
Less: valuation allowance	(3,799,400
	$ -

A reconciliation of the federal statutory income tax to the Company's effective income tax rate, for the three months ended March 31, 2003 and 2002 are as foll

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

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2003
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

11. Stock Options and Warrants

(a) Stock Options Plans

There were no options granted during the three months ended March 31, 2003. Subsequent to March 31, 2003, the Company granted options to purchase 500,000 shares at a price of $0.68 per share at a time when the market price was $0.48 per share.

The following is a summary of the employee stock option information for the period ended March 31, 2003:

	Shares
Options outstanding at December 31, 2000	3,043,000
Granted	195,000
Forfeited	(137,500)
Exercised	(131,000)
Options outstanding at December 31, 2001	2,969,500
Granted	920,000
Forfeited	(598,500)
Exercised	(3,000)

Options outstanding at December 31, 2002 and March 31, 2003	3,288,000

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	1,226,500	1.03	$ 0.50	1,226,500	$ 0.50
$1.01 - $2.00	726,500	4.05	$ 1.70	726,500	$ 1.70
$2.01 - $3.00	60,000	1.61	$ 2.50	60,000	$ 2.50
$3.01 - $4.00	1,275,000	2.62	$ 3.13	1,275,000	$ 3.13
	3,288,000	2.32	$ 1.82	3,288,000	$ 1.82

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2003
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

11. 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:

	March 31, 2003
Net (loss) for the period:	
- as reported	$ (734,027)
- pro-forma	$ (734,027)
Basic and diluted (loss) per share:	
- as reported	$ (0.04)
- pro-forma	$ (0.04)

(b) Warrants

Share purchase warrants outstanding as at March 31, 2003:

Number of Warrants	Underlying Shares	Exercise Price Per Share	Expir
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

* See Note 7

DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 2003
(Expressed in U.S. Dollars)
(Unaudited - Prepared by Management)

12. Related Party Transactions

(a) The Company incurred the following expenses to a director (2002: two directors) of the Company:

	March 31, 200

(Expressed in U.S. Dollars)

Management fees	$ 20,00

(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:

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

(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:

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

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

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

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

12. Related Party Transactions (continued)

(v) 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.

For both the G-CSF and Insulin Projects:

(Expressed in U.S. Dollars)

(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 March 31, 2003, 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.

(c) see Notes 5 and 6 also.

13. 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$326,200) 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$136,000 to US$157,000) per annum until March 31, 2007. Minimum payments required under the agreements are as follows:

2003	$ 347,289
2004	479,011
2005	480,184
2006	483,700
2007	365,851
2008 - 2009	470,841
Total	$ 2,626,876

14. Segmented Information

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

	March 31, 2003
ASSETS	
North America	$3,804,593
China	8,161,267
Others	474,320
Total	$12,440,180

	Three months ended March 31, 2003
REVENUE	
North America	$ -
China	454,347
Others	209,975
Total	$ 664,322

15. Comparative Figures

Certain 2002 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2003.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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-K for the fiscal year ended December 31, 2002.

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 calendar 1999. 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 Pharmaceutical (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 March 31, 2003 was $664,322 compared to $1,372,808 for the three-month period ending March 31, 2002. Sales in and outside of China were $454,347 and $209,975, respectively during the three-month period ending March 31, 2003. Sales during the three-month period ending March 31, 2002 were $525,308 in China and $847,500 outside of China. The overseas sales during the three-month period ending March 31, 2002 included delivery of a $700,000 order to be used by the purchaser for new drug research and development. Cost of sales for the three-months ended March 31, 2003 of $201,282 is attributed to the production costs of the pharmaceutical products. The cost of sales for the three-months ended March 31, 2002 was $190,282. The gross profit margin was 70% for the three-month period ending March 31, 2003 and 86% for the three-month period

ended March 31, 2002. The profit margin has decreased as the Company sold some product with short term expiry dates at a reduced price.

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. Interest income for the three-months period ended March 31, 2003 was $6,439 compared to $33,607 for the three-month period ended March 31, 2002.

Interest income has decreased as interest rates have declined and as the cash balance has decreased through the funding of operations.

Expenses. Total operating expenses for the three-months ended March 31, 2003 were $1,203,507. The major expenses incurred in the first quarter of 2003 was selling expenses of $505,672 representing 42% of total expenses. The remaining major expense items are represented by administrative expenses.

Significant operating expenses for the three-months ended March 31, 2003 included rent of $88,199, salaries and benefits of $191,393, $66,338 in travel costs, insurance of $30,166 and a bad debts provision of $30,710. Management fees of $20,000 were paid to a director for services during the first quarter of 2003.

Other significant expenses for the first quarter include the depreciation of fixed assets and amortization of license and permit of $185,299.

Comparatively, total operating expenses for the three-months ended March 31, 2002 were $2,153,768. The major expenses incurred in the first quarter of 2002 were research and development expenses of $755,572 and the selling expenses of $477,196 representing 35% and 22% of total expenses, respectively. The remaining major expense items are represented by administrative expenses.

Significant operating expenses for the three-months ended March 31, 2002 included consulting fees of $148,737, loan interest of $40,410, rent of $61,546, salaries and benefits of $141,686, $78,390 in travel costs and management fees

of $76,193. Management fees include $57,500 incurred to two directors for services during the first quarter of 2002.

Other significant expenses for the first quarter of 2002 include the depreciation of fixed assets and amortization of license and permit and land-use rights of $181,658.

Overall, expenditures have decreased in 2003 from 2002 levels as the Company has streamlined operations, closed its Beijing and Hong Kong representative offices and diligently pursued cutting costs in all areas, where practical.

Net and Comprehensive Loss. Dragon had a net loss and a comprehensive loss of $734,027 for the three-month period ending March 31, 2003.

The Company's net and comprehensive loss for the three-month period ended March 31, 2002 was $937,878.

Basic and Diluted Net Loss Per Share

The Company's loss of $0.04 per share has been computed by dividing the loss for the period by the weighted average number of shares outstanding during three-month period ended March 31, 2003. 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 March 31, 2003, the Company had $4,112,753 in cash available. This cash, the $757,025 in accounts receivable and anticipated sales will be used to fund the ongoing operations and research and development. Working capital was $4,727,872 at March 31, 2003.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

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, 2001 and 2002 and the three-months ended March 31, 2003 and 2002.

By Currency

	December 31, 2001	December 31, 2002
U.S. Dollar	31%	27%
Canadian Dollar	12%	46%
Renminbi Yuan	57%	27%
Total	100%	100%

	March 31, 2002	March 31, 2003
U.S. Dollar	21%	20%
Canadian Dollar	39%	60%
Renminbi Yuan	40%	20%
Total	100%	100%

Such administrative expense by currency may change from time to time. Further, the Company incurred expenses in China of $600,358 and $757,520 for the three-months ended March 31, 2003 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.

Item 4. Controls and Procedures

Within the 90 days prior to the date of this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, of the design and operation of the Company's disclosure and internal controls and procedures pursuant to Exchange Act Rule 13a-14. The review

identified a number of areas where there could be improvements to increase the effectiveness of controls and the Company is currently in the process of improving the controls and procedures in these areas. Notwithstanding the above, the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer have concluded that the Company's disclosure controls and procedures are sufficient enough to ensure adequate and appropriate disclosure of material information relating to the Company (including its consolidated subsidiaries) required to be included in this Form 10-Q.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

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

None

Item 5. Other Information.

None

Item 6. Exhibits and Reports on From 8-K.

(a) Exhibit 99.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

(b) Reports on 8-K

None.

Signatures

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 PHARMACEUTICAL INC.
(registrant)

/s/MATTHEW KAVANAGH

Matthew Kavanagh
Director of Finance and Corporate
compliance and Corporate Secretary
(duly authorized Officer and
Principal Financial Officer)

Dated: May 12, 2003

Section 302 Certification

CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-Q

I, Alexander Wick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dragon Pharmaceutical Inc. ("Registrant");

2. Based on my knowledge, this quarterly 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 quarterly 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 quarterly 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-14 and 15d-14) for the Registrant and we have:

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

   b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 16, 2003

/s/ ALEXANDER WICK

Alexander Wick, President and
Chief Executive Officer

Section 302 Certification

CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-Q

I, Matthew Kavanagh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dragon Pharmaceutical Inc. ("Registrant");

2. Based on my knowledge, this quarterly 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 quarterly 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 quarterly 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-14 and 15d-14) for the Registrant and we have:

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

   b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ MATTHEW KAVANAGH

Matthew Kavanagh, Principal Financial Officer