DRAGON PHARMACEUTICALS INC
Form 10-Q
May 15, 2001

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, 2001

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.)

543 Granville Street, Suite 1200
Vancouver, British Columbia
Canada V6C 1X8
(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 March 31, 2001: 16,706,000

Part 1. Financial Information
Item 1. Financial Statements

Consolidated Balance Sheet
(Expressed in U.S. Dollars)

	March 31 2001	Dece

	(Unaudited)	
ASSETS		
Current		
Cash and cash equivalents	$ 3,037,672	$ 4,
Restricted funds	2,439,970	2,
Accounts receivable	1,028,051	1,
Inventories	623,015	
Prepaid and deposits	116,399	
Total current assets	7,245,107	8,
Fixed assets	2,575,097	2,
Investment in Hepatitis B vaccine project - related party	4,000,000	4,
Refundable investment deposits - related party	372,000	
Licence and permit	3,654,546	3,
Total assets	$ 17,846,750	$ 18,
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Current		
Bank loans	$ 2,477,042	$ 2,
Accounts payable and accrued liabilities	1,359,815	1,
Total current liabilities	3,836,857	3,
Minority interests	825,643	
Commitment (Note 13)		
Stockholders' Equity		
Share capital		
Authorized: 50,000,000 common shares at par value of $0.001 each		
Issued and outstanding: 16,706,000 common shares (December 31, 2000 - 16,700,000)	16,706	
Additional paid in capital	20,055,866	20,
Accumulated other comprehensive (loss)	(23,595)	
Accumulated deficit	(6,864,727)	(6,
Total stockholders' equity	13,184,250	13,
Total liabilities and stockholders' equity	$ 17,846,750	$ 18,

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

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
(Expressed in U.S. Dollars)
(Unaudited)

	Common stock Shares	Common stock Amount	Additional paid-in capital	Compre-hensive income (loss)	Defi accumu
Balance, December 31, 1999	10,735,000	$ 10,735	$ 15,690,734		$ (3,2
Issued 4,258,000 common shares Previously allotted	4,258,000	4,258	(4,258)		
Additional share issuance costs to 4,258,000 common shares issued		-	(5,247)		
Exercise stock options for cash	107,000	107	53,393		
Exercise warrants for cash	1,600,000	1,600	2,498,400		
Allotted 250,000 common shares at $6.25 per share	-	-	1,562,500		
Stock option compensation	-	-	205,375		
Other comprehensive income - foreign currency translation	-	-	-	(75,637)	
Comprehensive income - net (loss) for the period	-	-	-	(2,745,794)	(2,7
Comprehensive income (loss)				$ (2,821,431)	
Balance, December 31, 2000	16,700,000	$ 16,700	$ 20,000,897		$ (6,0

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

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
(Expressed in U.S. Dollars)
(Unaudited)

	Common stock Shares	Common stock Amount	Additional paid-in capital	Compre-hensive income (loss)	Defi accumu
Balance, December 31, 2000	16,700,000	$ 16,700	$ 20,000,897	-	$ (6,0
Exercise of stock options for cash	6,000	6	2,994	-	
Other comprehensive income - foreign currency translation	-	-	-	1,993	
Comprehensive (loss) - net (loss) for the period	-	-	-	(856,183)	(8
Stock option compensation	-	-	51,975	-	
Comprehensive (loss)				$ (854,190)	
Balance, March 31, 2001	16,706,000	$ 16,706	$ 20,055,866		$ (6,8

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

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Operations
(Expressed in U.S. Dollars)
(Unaudited)

	January 1 2001 to March 31 2001	Janu 20 Mar 2
Sales	$ 664,414	$ 66
Cost of sales	146,920	9
Gross profit	517,494	56
Selling, general and administrative expenses	(1,125,808)	(47
Depreciation of fixed assets and amortization of licence and permit and land-use right	(153,814)	(8

Research expenses	(40,200)	
New market development	(99,880)	(1
Provision for doubtful debts	(36,826)	(2
Loan interest expense	(33,993)	(2
Stock-based compensation	(51,975)	(18
Operating loss	(1,025,002)	(24
Interest income	65,259	2
Loss before minority interest	(959,743)	(22
Minority interest	103,560	(1
Net (loss) for the period	$ (856,183)	$ (23
(Loss) per share Basic and diluted	$ (0.05)	$
Weighted average number of common shares outstanding Basic and diluted	16,701,233	11,80

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

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Consolidated Statement of Cash Flows
(Expressed in U.S. Dollars)
(Unaudited)

	January 1 2001 to March 31 2001	Januar 2000 March 2000
Cash flows from (used in) operating activities		
Net (loss) for the period	$ (856,183)	$ (234
Adjustments to reconcile net loss to net cash used in operating activities:		
- stock-based compensation expense	51,975	188
- depreciation of fixed assets and amortization of licence and permit and land-use right	197,323	122
- minority interests	(103,560)	10
- provision for doubtful debts	36,826	24

Changes in non-cash working capital items:		
- accounts receivable	101,974	(38
- inventories	(148,974)	(87
- prepaid expenses and deposits	(19,465)	(427
- accounts payable and accrued liabilities	(76,005)	(460
	(816,089)	(902
Cash flows used in investing activities		
Purchase of fixed assets	(327,932)	(38
Increase in restricted funds	(192,357)	(1,513
Additional cost of licence	-	(250
	(520,289)	(1,802
Cash flows from financing activities		
Loan proceeds	277,842	934
Proceeds from issuance of shares	3,000	113
Proceeds from shares subscribed and allotted in prior period, net of issuance costs	-	8,786
Funds contributed by minority shareholders	-	403
	280,842	10,238
Foreign exchange loss on cash held in foreign currency	506	8
Increase (decrease) in cash and And cash equivalents	(1,055,030)	7,540
Cash and cash equivalents, beginning of period	4,092,702	617
Cash and cash equivalents, end of period	$ 3,037,672	$ 8,158

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

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements
March 31, 2001

(Expressed in U.S. Dollars)
(Unaudited)

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"). Kailong and Huaxin are in the business of research and development, production and sales of pharmaceutical products in China.

2. Significant Accounting Policies

(a) Basis of Consolidation

(i) These consolidated financial statements include the accounts of the Company and Its subsidiaries, Allwin, Kailong and Huaxin. All inter-company transactions and balances have been eliminated.

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

(b) Principles of Accounting

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

2. Significant Accounting Policies (continued)

(c) Fixed Assets

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

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

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

(d) Foreign Currency Transactions

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

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

(e) Foreign Currency Translations

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

(f) Accounting Estimates

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

2. Significant Accounting Policies (continued)

(g) Advertising Expenses

The Company expensed advertising costs as incurred. There were no advertising expenses incurred by the Company for the period ended March 31, 2001.

(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 using enacted tax rates in effect in the years in which the differences are expected to reverse.

(i) Comprehensive Income

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

(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.

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements
March 31, 2001

(Expressed in U.S. Dollars)
(Unaudited)

2. Significant Accounting Policies (continued)

(j) Financial Instruments and Concentration of Risks (continued)

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.

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

(l) Cash Equivalents

Cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturities of three months or less. As at March 31, 2001, 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.

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements
March 31, 2001

(Expressed in U.S. Dollars)
(Unaudited)

2. Significant Accounting Policies (continued)

(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 4,658,000 warrants and 3,037,000 stock options outstanding at March 31, 2001 are anti-dilutive, however, they may be dilutive in future.

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements
March 31, 2001

(Expressed in U.S. Dollars)
(Unaudited)

2. Significant Accounting Policies (continued)

(q) New Accounting Pronouncements

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

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

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

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

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

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements
March 31, 2001

(Expressed in U.S. Dollars)
(Unaudited)

3. Restricted Funds

	March 31 2001	December 31 2000
Term deposits held as collateral against bank loans	$2,439,970	$1,736,328
Restricted for use in acquisition of fixed assets	-	511,285
	$2,439,970	$2,247,613

4. Accounts Receivable

	March 31 2001	December 31 2000
Trade receivable	$ 934,448	$ 996,100
Allowance for doubtful accounts	(77,514)	(40,663)
	856,934	955,437
Other receivable	171,117	211,439
	$1,028,051	$1,166,876

5. Inventories

	March 31 2001	December 31 2000

Raw materials	$ 161,036	$ 72,033
Finished goods	439,416	391,469
Work in progress	22,563	10,539
	$ 623,015	$ 474,041

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements
March 31, 2001

(Expressed in U.S. Dollars)
(Unaudited)

6. Fixed Assets

	March 31, 2001		
	Cost	Accumulated depreciation	Net book value
Motor vehicles	$ 100,347	$ 19,986	$ 80,361
Office equipment and furniture	230,550	67,852	162,698
Leasehold improvements	953,639	147,570	806,069
Production and lab equipment	1,897,846	371,877	1,525,969
	$3,182,382	$607,285	$2,575,097

	December 31, 2000		
	Cost	Accumulated depreciation	Net book value
Motor vehicles	$ 100,309	$ 15,752	$ 84,557
Office equipment and furniture	202,242	57,746	144,496
Leasehold improvements	952,364	119,234	833,130
Production and lab equipment	1,598,360	330,194	1,268,166

	$2,853,275	$522,926	$2,330,349

For the three-month period ended March 31, 2001, depreciation expenses totalled $84,755 (December 31, 2000 - $269,125). All fixed assets are located in China.

7. Investment in Hepatitis B Vaccine Project - Related Party

(a) Pursuant to an agreement dated October 6, 2000, the Company paid $4,000,000 for the acquisition of certain assets and technology relating to the production of Hepatitis B vaccine. The vendor of the transaction is a company named Alphatech Bioengineering Limited, incorporated in Hong Kong, and one of the two shareholders of which is a director and senior officer of the Company.

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

(i) $500,000 at the date of repurchase; and

(ii) the balance to be paid within eighteen (18) months of the date of repurchase with interest at 6% per annum. The interest will be accrued from six months after the date of repurchase.

(Expressed in U.S. Dollars)
(Unaudited)

8. Refundable Investment deposits - Related Party

	March 31 2001	December 31 2000
Guanzhou Recomgen Biotech Co. Ltd. - Tissue Plasminogen Activator ("TPA") Project	$400,000	$400,000
Less: Valuation allowance	(28,000)	(28,000)
	$372,000	$372,000

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. Subsequent to the year-end, due to financial market and economic conditions, the Company decided not to proceed with the funding and the acquisition. In accordance with the agreement, Guanzhou Recomgen and its principals agreed to refund the $400,000 before September 30, 2001.

(Expressed in U.S. Dollars)

9. Bank Loans

	March 31 2000	December 2000
RMB 3,000,000, bearing interest at 5.85% per annum and due on July 31, 2001	$ 362,494	$ 362,35
RMB 2,000,000, bearing interest at 5.85% per annum and due on August 15, 2001	241,663	241,57
RMB 7,800,000, bearing interest at 5.265% per annum and due on January 31, 2002. The loan is secured by the term deposit	942,484	942,12
RMB 4,000,000, bearing interest at 5.58% per annum and due on June 11, 2001. The loan is secured by the term deposit	483,325	483,13
RMB 1,400,000 bearing interest at 5.58% per annum and due on June 11, 2001. The loan is secured by the term deposit	169,164	169,09
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	277,912	
Total	$2,477,042	$2,198,28

The weighted average interest rate was 5.48% for the three-month period ended March 31, 2001 and 5.79% for the year ended December 31, 2000.

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 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.

(Expressed in U.S. Dollars)

Allwin is not subject to income taxes.

As at March 31, 2001, the parent company, Kailong and Huaxin have estimated losses, for tax purposes, totalling approximately $2,980,000, which may be applied against future taxable income. Accordingly, there is no tax expense charged to the Statement of Operations for the period ended March 31, 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:

	March 31 2001	March 31 2000
Tax loss carryforwards	$1,013,000	$392,000
Stock-based compensation	17,700	64,000
Less: valuation allowance	(1,030,700)	(456,000)
	$ -	$ -

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

	March 31 2001	March 31 2000
Federal statutory income tax rate	34%	34%
Change in valuation allowance	(34%)	(34%)
Effective income tax rate	-	-

11. Stock Options and Warrants

(a) Stock Options Plans

The Company charged $51,975 and $188,365, for the three-month periods ended March 31, 2001 and 2000, respectively, to income 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. There was no stock option granted during the period ended March 31, 2001.

The following is a summary of the employee stock option information for the period ended March 31, 2001:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 1999	1,520,000	$ 0.58
Granted	1,737,500	$ 3.31
Forfeitured	(107,500)	$ 7.00
Exercised	(107,000)	$ 0.50
Options outstanding at December 31, 2000	3,043,000	$ 1.89
Options exercised	(6,000)	$ 0.50
Options outstanding at March 31, 2001	3,037,000	$ 1.89

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.01 - $1.00	1,422,000	2.98	$0.50	1,408,000	$0.50
$1.01 - $2.00	-	-	$ -	-	$ -
$2.01 - $3.00	20,000	3.61	$2.50	20,000	$2.50
$3.01 - $4.00	1,595,000	4.60	$3.13	1,595,000	$3.13
	3,037,000	3.83	$1.89	3,023,000	$1.90

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DRAGON PHARMACEUTICALS INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements
March 31, 2001

(Expressed in U.S. Dollars)
(Unaudited)

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 89%, and expected lives of approximately 0 to 2 years. Based on the computed option values and the number of the options issued, had the Company recognized compensation expense, the following would have been its effect on the Company's net loss:

	March 31 2001	March 31 2000
Net (loss) for the period:		
- as reported	$(856,183)	$(234,780)
- pro-forma	(856,767)	(235,264)
Basic and diluted (loss) per share:		
- as reported	$(0.05)	$(0.02)
- pro-forma	$(0.05)	$(0.02)

(b) Warrants

Share purchase warrants outstanding as at March 31, 2001:

Number Of Warrants	Underlying Shares	Exercise Price Per Share	Expiry Date
4,258,000	4,258,000	$2.50	May 1, 2001
400,000	400,000	$3.00	November 24, 2002

(Expressed in U.S. Dollars)
(Unaudited)

12. Related Party Transactions

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

	March 31	March 31

	2001	2000
Management fees	$18,000	$18,000

(b) See Notes 8 and 9.

13. Commitment

The Company has entered into an operating lease agreement with respect to Huaxin's production plant in Nanjing, China for an amount of RMB 3,000,000 (approximately US$362,490) per annum until June 11, 2009. Minimum payments required under the agreement are as follows:

2002	750,000	90,620
2003	3,000,000	362,490
2004	3,000,000	362,490
2005	3,000,000	362,490
2006	3,000,000	362,490
2007 - 2009	7,375,000	891,130
Total	RMB20,125,000	US$2,431,710

14. Comparative Figures

Certain 2000 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2001.

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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-K for the fiscal year ended December 31, 2000.

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 Biotech Co. Ltd. which manufactures EPO in China. The Company increased the efficiencies in the production of EPO by Nanjing Huaxin Biotech by improving a proprietary high-yield mammalian cell line and "vectoring process" which has been developed by Dragon. The Company successfully achieved commercial production in China during the last quarter of calendar1999.

On March 30, 2000, the Allwin Newtech (a wholly-owned subsidiary of the Company) entered into an agreement to increase its equity interest in Sanhe Kailong Bio-pharmaceutical Co., Ltd. from 75% to 95%. The Company paid $250,000 and is committed to issue 250,000 common shares to increase its equity interest. To date, due to administrative delays, the shares have not yet been issued but are represented as common shares allotted on the Company's financial statements.

On June 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 results primarily from the sale of EPO in China. Revenue for the three month period ending March 31, 2001, was $664,414 compared to $661,785 for the three month period ending March 31, 2000. Cost of sales for the three months ended March 31, 2000, of $146,920 is attributed to the production costs

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of the pharmaceutical products. The cost of sales for the three months ended March 31, 2000, was $98,865. During the three months ended March 31, 2001, Dragon had interest income of $65,259. Interest income for the three months ended March 31, 2000, was $24,052. Interest income is related primarily to interest earned on cash received from the private placement of common stock received during the last quarter of 1999.

Expenses. Total operating expenses for the three months ended March 31, 2001, were $1,125,808. The major expense incurred in the first quarter of 2001 related to the selling of pharmaceutical products and represented approximately 41% of total expenses. The remaining major expense items are represented by administrative expenses.

Significant operating expenses for the three months ended March 31, 2001, included auditing expenses of $36,200, consulting fees of $122,323, legal and corporate services of $34,414, new product line testing of $93,611, rent of $71,330, salaries and benefits of $98,242, and management fees of $35,125. Management fees include $18,000 paid to one director for services during the first quarter of 2001.

Other significant expenses for the first three months of 2001 include the depreciation of fixed assets of and amortization of license and permit and land-use rights of $153,814, new market development of $99,880, and stock based compensation of $51,975.

Comparatively, total operating expenses for the first quarter of 2000 were $442,653. Selling expenses represented 39% total operating expenses during this period. Other major expenses for the period ended March 31, 2000, included the depreciation of fixed assets and amortization of intangible assets of $88,233, bad debt write offs of $24,038, and loan interest of $25,471.

Net and Comprehensive Loss. Dragon had a net loss of $856,183 and a comprehensive loss of $959,743 for the three month period ending March 31, 2001. Calculated in the comprehensive loss for the period was a minority interest loss of $103,560.

The Company's net loss for the three month period ended March 31, 2000, was $234,780 which includes a minority interest loss of $10,911. The comprehensive loss for the same period was $223,869.

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 the three months then ended. The loss per share for the three month period ending March 31, 2001 and 2000, was $0.05 and $0.02, respectively. 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.

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Liquidity and Capital Resources

Dragon is a development stage pharmaceutical and biotechnological company that has commenced the manufacture and marketing of pharmaceutical products in China through its 75% equity interest in Nanjing Huaxin Biotech. Previously, the Company has raised funds through equity financings to fund its operations and to provide working capital. The Company 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 June 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.

As of March 31, 2001 and December 31, 2000, Dragon's working capital was $3,408,250 and $4,444,066, respectively.

Item 3.

Dragon has no long-term debt. Therefore, Dragon does not believe that a change in interest rates will have a material effect on the Company.

PART II. OTHER INFORMATION

Items 1, 2, 3, 4 and 5

None.

Item 6(a) Exhibits

10.12. Letter agreement between the Company and Alphatech Bioengineering Limited modifying their agreement of October 6, 2000.

10.13. Letter of intent between Longbin Liu and the Company.

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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 PHARMACEUTICALS INC.
(registrant)

Dated: May 14, 2001

/s/ Dr. Longbin Liu
Dr. Longin Liu
President and Chief Executive Officer and
Chief Financial Officer
(and authorized to sign on behalf of the
registrant)