

DRAGON PHARMACEUTICALS INC

Form S-4/A

September 09, 2004

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As filed with the Securities and Exchange Commission on September 9, 2004

Registration No. 333-117428

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-effective Amendment Number 1 to
Form S-4

REGISTRATION STATEMENT

UNDER THE

SECURITIES ACT OF 1933

Dragon Pharmaceutical Inc.

(Exact name of registrant as specified in its charter)

Florida
(State or Other jurisdiction of
incorporation or organization)

2834
(Primary Standard Industrial Classification
Code Number)

65-0142474
(I.R.S. Employer Identification
No.)

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1055 Hastings Street, Suite 1900

Vancouver, British Columbia V6E 2E9

(604) 669-8817

(Address and telephone number of principal executive offices)

Alexander Wick

Dragon Pharmaceutical Inc.

1055 Hastings Street, Suite 1900

Vancouver, British Columbia V6E 2E9

(604) 669-8817

(Name, address and telephone number of agent for service)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement and the effective time of the acquisition by the Registrant of all outstanding shares of Oriental Wave Holding Ltd. as described in the Share Purchase Agreement dated June 11, 2004, included as Annex A to the proxy statement/prospectus forming a part of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, \$0.001 par value	48,867,551	\$.93 ⁽¹⁾	\$45,446,822	\$5,759.00
TOTAL				\$5,759.00*

⁽¹⁾ Fee calculated in accordance with Rule 457(c) of the Securities Act. Estimated for the sole purpose of calculating the registration fee and based upon the closing price of the registrant's common stock of \$.93 as quoted on the OTC Bulletin Board on July 9, 2004.

* Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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DRAGON PHARMACEUTICAL INC.

1055 West Hastings Street, Suite 1900

Vancouver, British Columbia

Canada V6E 2E9

Telephone (604) 669-8817

To Our Shareholders:

You are cordially invited to attend the annual meeting of the shareholders of Dragon Pharmaceutical Inc. to be held at 10:00 a.m. local time, on ●, 2004 at our principal executive office located at 1055 West Hastings Street, Suite 1900, Vancouver, British Columbia.

At the meeting, you will be asked to

approve the issuance of shares of common stock to complete the acquisition of a Chinese generic pharmaceutical manufacturer, Shanxi Weiqida Pharmaceutical Co., Ltd., such combination to be accomplished by the exchange of our shares for all outstanding shares of Shanxi Weiqida s sole shareholder, Oriental Wave Holding Ltd., and

consider our customary annual business, being the election of nominees to the board of directors and the ratification of the appointment of the independent accountants.

The approval of the issuance of our common stock in exchange for all outstanding shares of Oriental Wave is being sought to satisfy the requirements of the Toronto Stock Exchange. Upon completion of the acquisition, Oriental Wave and its subsidiary, Shanxi Weiqida, will become our direct and indirect, wholly-owned subsidiaries.

We believe that the acquisition of Oriental Wave will provide substantial strategic and financial benefits to our shareholders and that the transaction will combine our respective strengths and competitive advantages without requiring a fundamental change in strategy for either company. We believe the combined company will have a better opportunity for growth as a result of being more diverse, with established product lines, expanded production facilities and operations in China, and be stronger financially based on our combined sales and earnings. Overall, we believe the combined company will better position us to deliver increased shareholder value over what could be achieved by Dragon individually.

Under the proposed share exchange, the shareholders of Oriental Wave will own, after the exchange, 68.35% of our common shares as calculated on a fully diluted basis. We estimate that at the closing of the acquisition, we will be required to issue approximately 44.4 million shares of common stock, plus any additional shares needed to account for outstanding options and warrants. As this exceeds the number of our available authorized shares of common stock, in order to permit the acquisition to be completed in a single closing, at the meeting we will also be seeking shareholder approval of an amendment to our Certificate of Incorporation to increase the number of our authorized shares of common stock. If the acquisition is approved but the increase in authorized shares is not approved, we intend to complete the acquisition in two stages:

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acquiring a majority of Oriental Wave's shares in the first stage and the balance of the shares only after our shareholders have approved an increase in our authorized shares. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the Oriental Wave shareholders will hold a sufficient number of our outstanding shares to be able to guarantee shareholder approval of the increase of our authorized shares necessary to complete the acquisition.

We hope you plan to attend the annual shareholders' meeting. However, whether or not you plan to attend the meeting in person, in order that we may be assured of a quorum we urge you to sign and return the enclosed proxy in the postage-paid envelope provided as promptly as possible.

/s/ ALEXANDER WICK

Alexander Wick
President

•, 2004

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DRAGON PHARMACEUTICAL INC.

1055 West Hastings Street, Suite 1900

Vancouver, British Columbia

Canada V6E 2E9

Telephone (604) 669-8817

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On •, 2004

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of Dragon Pharmaceutical Inc. (Dragon), a Florida corporation, will be held at our principal executive office located at 1055 West Hastings Street, Suite 1900, Vancouver, British Columbia, on •day, •, 2004 at 10:00 a.m. local time, for the purpose of considering and acting on the following proposals:

1. In order to satisfy the requirements of the Toronto Stock Exchange, to approve the issuance of shares of Dragon s common stock to complete the acquisition of all outstanding shares of Oriental Wave Holding Ltd., the sole shareholder of Chinese generic pharmaceutical manufacturer, Shanxi Weiqida Pharmaceutical Co., Ltd.;
2. To approve an amendment to Dragon s Certificate of Incorporation to increase the number of authorized shares of common stock from 50,000,000 shares to 200,000,000 shares;
3. To elect the two nominees named in the proxy statement/prospectus as directors to serve for one-year terms or until their successors have been elected and qualified;
4. To ratify the appointment of Moore Stephens Ellis Foster Ltd., Chartered Accountants, to audit Dragon s financial statements for the year ending December 31, 2004; and
5. To approve the adjournment of the annual meeting for any permitted reason, including, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the annual meeting to approve the proposals.

The board of directors has approved the acquisition of Oriental Wave and recommends that you vote to approve the issuance of shares and the amendment to the Certificate of Incorporation to increase the number of authorized shares of common stock. The accompanying proxy statement/prospectus contains a detailed description of the terms of the agreement to acquire Oriental Wave, a discussion of the business of Oriental Wave and its subsidiary, Shanxi Weiqida, and a discussion of Dragon after the acquisition.

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Only shareholders of record at the close of business on ●, 2004, are entitled to receive notice of and to vote at the meeting. Shareholders are invited to attend the meeting in person.

Please sign and date the accompanying proxy card and return it promptly in the enclosed postage-paid envelope whether or not you plan to attend the meeting in person. If you attend the meeting, you may vote in person if you wish, even if you previously have returned your proxy card. The proxy may be revoked at any time prior to its exercise. If your shares are held in the name of a bank, broker or other fiduciary, please follow the instructions on the voting instruction card furnished by the shareholder of record. **Remember, your vote is important so please act as promptly as possible.**

By Order of the Board of Directors

/s/ MATTHEW KAVANAGH
Secretary

●, 2004

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DRAGON PHARMACEUTICAL INC.

1055 West Hastings Street, Suite 1900

Vancouver, British Columbia

Canada V6E 2E9

Telephone (604) 669-8817

PROXY STATEMENT/PROSPECTUS

We, Dragon Pharmaceutical Inc., are furnishing this proxy statement/prospectus to you in connection with our 2004 annual meeting to be held on •day, •, 2004, at 10:00 a.m. local time at our principal executive office located at 1055 West Hastings Street, Suite 1900, Vancouver, British Columbia, and at any adjournment thereof. The matters to be considered and acted upon are as follows:

in order to satisfy the requirements of the Toronto Stock Exchange, the approval of the issuance of shares of our common stock to complete the acquisition of all outstanding shares of Oriental Wave Holding Ltd., the sole shareholder of Chinese generic pharmaceutical manufacturer, Shanxi Weiqida Pharmaceutical Co., Ltd.,

to approve an amendment to our Certificate of Incorporation to increase the number of our authorized shares of common stock from 50,000,000 shares to 200,000,000 shares so that we will have a sufficient number of authorized shares to complete the acquisition of Oriental Wave in a single closing and a sufficient number of authorized but unissued shares to provide us with flexibility in our corporate planning,

the election of two nominees as directors;

to ratify the appointment of our independent accountants, and

to approve the adjournment of the annual meeting for any permitted reason, including, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the annual meeting to approve the proposals.

The enclosed proxy is solicited on behalf of our board of directors and may be revocable by you at any time before the voting of such proxy. All properly executed proxies delivered pursuant to this solicitation will be voted at the meeting and in accordance with instructions, if any.

This proxy statement/prospectus is also being used as a prospectus of the common stock that we propose be issued in connection with the share exchange with the shareholders of Oriental Wave.

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Unless the context otherwise requires, all references to Dragon, we, us, and our refer to Dragon Pharmaceutical Inc. and its subsidiaries, all references to Oriental Wave refer to Oriental Wave Holding Ltd. and all references to Shanxi Weiqida refer to Oriental Wave's subsidiary, Shanxi Weiqida Pharmaceutical Co., Ltd.

This proxy statement/prospectus is being mailed on or about •, 2004.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus contains forward-looking statements that are based on the beliefs of our management and reflect our current expectations as contemplated under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. When used in this proxy statement/prospectus, the words estimate, project, believe, anticipate, intend, expect, plan, predict, may, should, will words or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in those forward-looking statements, and discussed in further detail in the section of this proxy statement/prospectus entitled Risk Factors.

The forward-looking statements contained in this proxy statement/prospectus speak only as of the date of the proxy statement/prospectus. Except as required by applicable regulations, Dragon does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus, including the occurrence of unanticipated events.

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QUESTIONS AND ANSWERS

ABOUT THE MEETING, VOTING AND

THE PROPOSED SHARE EXCHANGE WITH THE

SHAREHOLDERS OF ORIENTAL WAVE

The following are some questions that you, as a shareholder of Dragon, may have regarding our acquisition of Oriental Wave and the other matters being considered at the annual shareholders' meeting and the answers to those questions. We urge you to read carefully the remainder of this proxy statement/prospectus because the information in this section does not provide all of the information that might be important to you with respect to the share exchange and the other matters being considered at the annual shareholders' meeting. Additional important information is also contained in the annex to this proxy statement/prospectus.

What are shareholders being asked to vote on at the meeting?

Our shareholders will vote on a proposal to approve the issuance of shares of common stock pursuant to a Share Purchase Agreement with the shareholders of Oriental Wave. This proposal is being sought to meet the listing requirements of the Toronto Stock Exchange. In addition, shareholders will be asked to approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 50,000,000 to 200,000,000 so that we will have a sufficient number of shares to complete the acquisition in one stage. If these two proposals are passed and the share exchange is completed, Oriental Wave will become our wholly-owned subsidiary.

At the meeting, shareholders will also vote on the election of directors and the ratification of our independent accountants.

Why am I receiving this proxy statement/prospectus?

We and the shareholders of Oriental Wave have agreed to complete a share exchange in which Oriental Wave would become our wholly-owned subsidiary. Under terms of the Share Purchase Agreement entered into with the shareholders of Oriental Wave, in order to fully complete the share exchange we must issue a sufficient number of shares of our common stock such that the shareholders of Oriental Wave will hold, in the aggregate at the completion of share exchange, 68.35% of our outstanding shares (calculated on a fully-diluted basis). Based on 20,582,000 shares of our common stock outstanding and 2,046,500 shares reserved for future issuance as of August 19, 2004, and assuming shareholder approval of an increase in the number of our authorized shares, we estimate that we will issue up to an aggregate of approximately 48.9 million shares of common stock to complete the acquisition of Oriental Wave. A description of the terms of the Share Purchase Agreement is included in this proxy statement/prospectus and a copy of the agreement is also attached to this proxy statement/prospectus as Annex A.

We will seek to obtain approval for these proposals at the meeting. This proxy statement/prospectus contains important information about our common stock, the share exchange and the meeting of shareholders and you should read it carefully. The enclosed voting materials allow you to vote your shares without attending the shareholders' meeting.

What will happen in the share exchange?

Under the Share Purchase Agreement, the shareholders of Oriental Wave will exchange all of their outstanding shares of Oriental Wave for shares of our common stock. If the proposals to approve the issuance of shares of common stock in connection with the Share Purchase Agreement and to approve the amendment to our Certificate of Incorporation to increase the number of authorized shares are approved, the acquisition of Oriental Wave will occur in one transaction. If the proposal to approve the issuance of the shares is approved but the proposal to approve an amendment of our Certificate of Incorporation to increase the number of our authorized shares is not approved, we intend to complete the closing of the acquisition in two stages. In the first stage we intend to acquire 60% of the outstanding shares of Oriental Wave for approximately 27.37 million shares of our common

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stock. We intend to acquire the remaining 40% of the outstanding shares of Oriental Wave in consideration for our issuance of the remaining number of shares in a second closing that will occur after shareholder approval of an amendment to our Certificate of Incorporate increasing the number of our authorized shares of common stock. Dragon and the shareholders of Oriental Wave may agree to change the number of shares issued and acquired in the first closing, though we will not complete the first closing unless we acquire more than 50% of the outstanding shares of Oriental Wave. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the Oriental Wave shareholders will hold a sufficient number of our outstanding shares to be able to guarantee approval of the increase of our authorized shares to complete the acquisition.

When is the share exchange expected to be completed?

We anticipate that the share exchange will be completed by the end of the fourth quarter of 2004.

Who is entitled to vote?

Only shareholders of record at the close of business on •, 2004 (the Record Date), are entitled to vote at the meeting, or any postponements or adjournments of the meeting.

What are the Board s recommendations on the proposals?

The Board recommends a vote

FOR the issuance of shares pursuant to the Share Purchase Agreement;

FOR the amendment to our Certificate of Incorporation to increase the authorized number of shares of our common stock from 50,000,000 shares to 200,000,000 shares;

FOR the election of each of the nominees to our board of directors; and

FOR the ratification of Moore Stephens Ellis Foster Ltd., Chartered Accountants, as our independent accountants.

How will our directors and senior management vote on the proposals?

Certain of our directors, Messrs. Cai, Liu, Sun and Wick, have advised us that they and certain of their affiliates or other related parties intend to vote FOR each of the proposals and FOR each of the nominees. We have been advised that this group owns or controls, in the aggregate, 8,192,500 shares of our common stock or 39.8% of our outstanding shares.

Will I be entitled to dissenters' rights if the proposals are posted?

Our shareholders will not be entitled to dissenters' rights in connection with any of the proposals.

How do I vote?

Sign and date each proxy card you receive and return it in the postage-prepaid envelope enclosed with your proxy materials. If you are a registered shareholder and attend the meeting, you may deliver your completed proxy card in person.

If your shares are held by your broker or bank, in street name, you will receive a form from your broker or bank seeking instructions as to how your shares should be voted. If you do not instruct your broker or bank how to vote, your broker or bank will vote your shares if it has discretionary power to vote on a particular matter.

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Who will count the vote?

Our Secretary will count the votes and act as the inspector of election. Our transfer agent, Computershare Trust Company of Canada, will tally the proxies and provide this information at the time of the meeting.

What shares are included on the proxy card(s)?

The shares on your proxy card(s) represent ALL of your shares. If you do not return your proxy card(s), your shares will not be voted.

What does it mean if I get more than one proxy card?

If your shares are registered differently and are in more than one account, you will receive more than one proxy card. Sign and return all proxy cards to ensure that all your shares are voted. We encourage you to have all accounts registered in the same name and address (whenever possible). You can accomplish this by contacting our transfer agent, Computershare Trust Company of Canada ((604) 661-9400), or, if your shares are held in street name, by contacting the broker or bank who holds your shares.

How many shares can vote?

There were • shares of common stock issued and outstanding as of the Record Date. Every shareholder is entitled to one vote for each share of common stock held. We have no other voting securities outstanding.

What is a quorum ?

A quorum is a majority of the outstanding shares entitled to vote and attending the meeting. They may be present in person or represented by proxy. For the purposes of determining a quorum, shares held by brokers or nominees for which we receive a signed proxy will be treated as present even if the broker or nominee does not have discretionary power to vote on a particular matter or if instructions were never received from the beneficial owner. These shares are called broker non-votes. Abstentions will be counted as present for quorum purposes.

What do I need to do now?

After you have carefully read this proxy statement/prospectus, indicate on your proxy card how you want your shares voted, then sign and mail the proxy card in the enclosed postage-prepaid return envelope marked Proxy as soon as possible so that your shares may be represented and voted at the meeting.

Can I change my vote after I have mailed my signed proxy card?

Yes. There are three ways for you to revoke your proxy and change your vote. First, you may send a written notice to our secretary stating that you would like to revoke your proxy. Second you may complete and submit a new proxy card. Third, you may vote in person at the meeting.

What happens if I abstain?

Proxies marked `abstain` will be counted as shares present for the purpose of determining the presence of a quorum but, for purposes of determining the outcome of a proposal, shares represented by such proxies will not be treated as affirmative votes. For Proposals 1 and 4, affirmative votes of a majority of the shares voting are required. However, for the other proposals requiring an affirmative vote of a majority of the shares present, an abstention is equivalent to a `no` vote.

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If my shares are held by a broker, will the broker vote my shares for me?

Your broker will vote your shares only if you provide instructions to the broker about how to vote. You should instruct your broker how to vote your shares in accordance with the directions your broker provides. Failure to provide instructions to your broker will result in your shares not being voted.

How will we solicit proxies?

We will distribute this proxy statement/prospectus and solicit votes. The cost of soliciting proxies, which will be conducted by mail, will be borne by us. These costs will include the expense of preparing and mailing proxy solicitation materials for the meeting and reimbursements paid to brokerage firms and others for their reasonable out-of-pocket expenses for forwarding proxy solicitation materials to shareholders. Proxies may also be solicited in person, by telephone, or by facsimile by our directors, officers and employees without additional compensation. In addition, we may engage a proxy solicitor to assist us in obtaining votes. If we do engage a proxy solicitor, we will pay a fee and we anticipate that we will indemnify the proxy solicitor for certain actions in connection with the solicitation and the materials contained in this proxy statement/prospectus.

Whom should I contact with questions or to obtain additional copies of this proxy statement/prospectus?

Dragon Pharmaceutical Inc.

1055 West Hastings Street, Suite 1900

Vancouver, British Columbia

Canada V6E 2E9

Attention: Garry Wong

Telephone 1-877-388-3784

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SUMMARY

This summary highlights information contained elsewhere in this proxy statement/prospectus. We urge you to read carefully the remainder of this proxy statement/prospectus, including Annex A, because this summary does not provide all of the information that might be important to you with respect to the acquisition of Oriental Wave and the other matters being considered at the shareholders' meeting. See also the section entitled "Where You Can Find More Information" beginning on page 86.

The Meeting

Our annual meeting of shareholders is to be held on ●, 2004. At the meeting, shareholders will be asked to

approve the issuance of shares of our common stock to complete the acquisition of Oriental Wave, the sole shareholder of a Chinese generic pharmaceutical manufacturer, Shanxi Weiqida Pharmaceutical Co., Ltd., such acquisition to be accomplished by the exchange of our shares for all of the outstanding shares of Oriental Wave,

approve an amendment to our Certificate of Incorporation to increase the number of our authorized shares of common stock from 50,000,000 to 200,000,000 in order to permit the acquisition of Oriental Wave to be completed in a single closing, and

consider our customary annual business, being the election of nominees to the board of directors and the ratification of the appointment of our independent accountants.

The rules of the Toronto Stock Exchange require that the issuance of the shares in connection with transactions of the nature proposed with Oriental Wave be approved by our shareholders. Shareholders are being asked to approve the resolution authorizing the issue of shares to the shareholders of Oriental to comply with this requirement.

Upon completion of the acquisition, Oriental Wave and its subsidiary, Shanxi Weiqida, will become our direct and indirect, wholly-owned subsidiaries. Under the proposed share exchange, the shareholders of Oriental Wave will own, after the exchange, 68.35% of our common shares as calculated on a fully diluted basis.

The Companies

Dragon. We are a pharmaceutical and biotechnology company whose business plan is to develop and manufacture pharmaceutical products in China and market pharmaceutical products in China and in other developing countries. The sole product we currently produce is Erythropoietin or EPO. EPO is a glycoprotein that stimulates and regulates the rate of formation of red blood cells. EPO is primarily used to treat anemia, which is a shortage of red blood cells often caused by kidney disease and chemotherapy or radiation therapy.

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We have entered into a series of marketing and license agreements with local pharmaceutical distribution companies to sell, formulate, vial and package our EPO. In most cases the local company is responsible for obtaining, at its expense, all approvals from applicable regulatory authorities that are necessary to permit the sale of our EPO in the licensed area. Currently, we have marketing and license agreements covering approximately 135 countries. We have commenced sales in five of those countries, namely Brazil, India, Egypt, Peru and Ecuador, and our partners in the other licensed countries are working on obtaining required regulatory approvals before they commence sales. We directly market our products in China.

We currently lease an approximately 90,000 square feet facility in Nanjing, China that houses our EPO production line.

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Oriental Wave & Shanxi Weiqida. Oriental Wave, a company incorporated in the British Virgin Islands, is a privately owned holding company. Through its wholly-owned subsidiary, Shanxi Weiqida, Oriental Wave is principally engaged in the development, production and sale of pharmaceutical products in China.

Shanxi Weiqida's operations are located in Datong City, Shanxi Province, China. Shanxi Weiqida currently holds approximately 290 licenses to produce pharmaceutical products in China. Out of these 290 licenses, the Shanxi Weiqida produced 35 products in 2003. In 2002 and 2003 Shanxi Weiqida operated only a pharmaceutical division (the Pharma Division) which produced and marketed generic drugs, mainly anti-infectious drugs. In January 2004, Shanxi Weiqida began operation of a chemical division (the Chemical Division) to produce and market bulk pharmaceutical chemicals, including Clavulanic Acid, 7-ACA and certain sterilized bulk drugs.

Shanxi Weiqida's head office and manufacturing facilities are located in Datong City. The head office and Pharma Division are contained in a fully-integrated facility, totaling approximately 258,300 square feet, and includes three production workshops that house a total of eight production lines, utility infrastructure, quality assurance and quality control and a warehouse. The Chemical Division is located in a different location in Datong City. The manufacturing facilities of this division consist of approximately 818,100 square feet.

Required Vote

The proposals to approve the issuance of common stock in connection with the acquisition of Oriental Wave and to ratify our independent accountants must be approved by the holders of a majority of the shares of common stock who appear in person or by proxy at the annual meeting and vote on the proposal. The proposal to amend our Certificate of Incorporation to increase the number of authorized shares of common stock from 50,000,000 shares to 200,000,000 shares must be approved by holders owning a majority of our outstanding shares of common stock. The nominees who receive the plurality of votes will be elected as our directors.

The Acquisition of Oriental Wave

We have entered into a Share Purchase Agreement with the shareholders of Oriental Wave under which we will acquire all of the outstanding shares of Oriental Wave. In order to acquire control of Oriental Wave and, indirectly, Shanxi Weiqida, we will issue shares of our common stock to the shareholders of Oriental Wave in exchange for all their shares in Oriental Wave.

The total number of shares of common stock to be issued will equal 68.35% of our outstanding common stock after the acquisition, as calculated on a fully diluted basis. Such ownership percentage is fixed and is not subject to change as a result of any fluctuation in the price of Dragon's stock. Based on 20,582,000 shares of our common stock outstanding and 2,046,500 shares reserved for future issuance as of August 19, 2004, and assuming that the proposal to increase the number of authorized shares is approved, we estimate that we will issue up to an aggregate of approximately 48.9 million shares of common stock to complete the share exchange with the Oriental Wave shareholders.

We currently have 50,000,000 shares of common stock authorized and, as of June 30, 2004, we had 20,582,000 shares of common stock outstanding and 2,046,500 shares reserved for issuance in connection with the exercise of outstanding options and warrants. We do not have a sufficient number of authorized shares to, in a single closing, fully satisfy our commitment to issue shares to the Oriental Wave shareholders. If the proposal to approve the issuance of shares to the Oriental Wave shareholders is approved, but the proposal to amend our Certificate of Incorporation to increase our authorized shares is not approved, we and the shareholders of Oriental Wave have agreed to complete the share

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exchange in two stages. The first stage of the acquisition will result in 60% of the shares of Oriental Wave transferred to us in exchange for approximately 27.37 million shares of our common stock. This will result in the Oriental Wave shareholders owning, as a group, approximately 54.74% of our shares of common stock as calculated on a fully diluted basis (57.08% on a non-dilutive basis) and we will own 60% of the common shares of Oriental Wave. We intend to complete the balance of the acquisition of shares of Oriental Wave as soon as practicable after we receive shareholder approval of an increase to our authorized shares. We and the shareholders of Oriental Wave may change the number of shares issued and acquired in the first closing, although we will not complete the first closing unless we acquire more than 50% of the outstanding shares of Oriental Wave. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the

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Oriental Wave shareholders will hold a sufficient number of our outstanding shares to be able to guarantee shareholder approval of an increase of our authorized shares to complete the acquisition.

Conditions to Completion of the Acquisition

The obligation of the parties to complete the acquisition is subject to the fulfillment of each of the following conditions:

the representations and warranties of each party contained in the Share Purchase Agreement being true and correct in all material respects as of the closing of the acquisition or being waived,

all covenants and agreements contained in the Share Purchase Agreement to be performed or complied with being performed or complied with in all material respects or being waived,

each party acknowledging or waiving the satisfaction of the conditions to closing for the benefit of those parties, and

the obtaining of all required regulatory approvals and consents, which condition will not be waived by Dragon.

In addition, the obligation of the parties to complete the acquisition is subject to the fulfillment or waiver of their receiving all of the certificates, certified copies of resolutions, copies of consents, regulatory approvals and letters, executed escrow agreements, legal opinions and other documents and instruments to be delivered at the closing of the acquisition as set out in the Share Purchase Agreement.

The obligation of Dragon to complete the acquisition is subject to the fulfillment or waiver of each of the following additional conditions

all share purchase options and any other convertible securities of Oriental Wave being exercised for, or converted into, shares of Oriental Wave or cancelled by the closing of the acquisition and the shares of Oriental Wave held by Mr. Han, Mr. Weng and Ms. Liu representing all of the outstanding shares of Oriental Wave, and

approximately \$2.4 million (RMB 20 million) in loans owed by Shanxi Weiqida to Shanxi Tongling Pharmaceutical Co., Ltd. a related party, being converted into the paid-in capital of Shanxi Weiqida, with the balance of the loan approximately \$2.7 million (RMB 22 million) remaining outstanding on the current terms of such loan. Mr. Han, the Chairman of Oriental Wave, is also the Chairman of Shanxi Tongling Pharmaceutical Co., Ltd.

Termination of Share Purchase Agreement

If the closing of the acquisition has not occurred on or before 5:00 p.m. (Pacific Time) on December 31, 2004, the Share Purchase Agreement will automatically terminate. The Share Purchase Agreement also may be terminated

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at any time with the written consent of each party,

by the Oriental Wave shareholders if they notify us that they do not wish to proceed with the exchange of their shares on the basis that there has been a material decrease in the value of Dragon as a company, including but not limited to the value available to a proposed acquirer in the goodwill and reputation of Dragon as a public company, there is any indication of improper trading activity in Dragon's stock. A decrease in Dragon's stock price, in and of itself, is also not considered to be a material decrease in the value of Dragon as a company, or

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by us if we notify the Oriental Wave shareholders that our board of directors has identified and decided to pursue an alternative transaction.

If the Share Purchase Agreement is terminated by the Oriental Wave shareholders or by Dragon in the circumstances described above, we are required to reimburse Oriental Wave for the reasonable expenses actually incurred by Oriental Wave in connection with all matters relating to the acquisition up to an amount not to exceed \$500,000.

Reasons for the Acquisition

We believe that the acquisition of Oriental Wave represents an important strategic step for us that will strengthen our competitive position. Combining the businesses of Dragon and Oriental Wave into one unified organization will expand our range of products, allow us to leverage the marketing networks we both have built over the years in China and in international markets and improve our ability to execute our combined business strategy. These benefits will enable us to better capitalize on attractive global market opportunities in the generic pharmaceutical sector as well as the bulk pharmaceutical chemicals sector and position us for increased revenue and growth. Among the benefits we anticipate realizing from the acquisition are the following:

Achievement of Critical Scale. We are currently a relatively small company and are often considered as a minor participant in the global pharmaceutical industry. After the acquisition of Oriental Wave we will have substantially increased our scale in terms of asset size, range of products offered, number of employees, manufacturing capabilities and number of manufacturing facilities. With this increase in size, we expect to be able to attract more market attention and generate more business opportunities with customers and business partners and, as a result, be able to more effectively execute our business strategy and better compete in our target markets in the global pharmaceutical industry.

Diversification. We believe the acquisition will facilitate our continued transition from a single product company to a more diversified company offering broader and more proven product lines of pharmaceutical, chemical and biotech products. We believe the breadth and nature of the combined product portfolio will be a competitive advantage for the combined company. In addition, the diversification impact of the acquisition will mitigate the overall business risk profile of Dragon and also enable Dragon to operate in multiple sectors of the global pharmaceutical market.

Complementary Sales Platform. Oriental Wave, through its subsidiary, Shanxi Weiqida, maintains direct and indirect sales networks in China. Its direct sales network consists of sales offices established throughout China to market, promote and sell Shanxi Weiqida's products. Such sales offices are managed by sales managers who are employed by Shanxi Weiqida. Its indirect sales network consists of 10 nationwide and 12 district-wide agents retained to sell and distribute products. The indirect sales networks are similar to a third-party agency and the individuals in the indirect sales networks are not employees of Oriental Wave or Shanxi-Weiqida. We believe the direct and indirect sales networks will compliment our existing licensing and third party distribution arrangements. We expect that the complementary distribution platform will give the combined company a market reach that provides coverage of the combined portfolio in both the Chinese and international markets. This is expected to accelerate the distribution of our products into Oriental Wave's core Chinese market and Oriental Wave's products into our world-wide distribution arrangements.

Complementary Management Expertise. We will combine the management teams of Oriental Wave, which has extensive experience in pharmaceutical product manufacturing and sales and marketing in China, and those of Dragon, which has extensive experience in international regulatory affairs and international market development for pharmaceutical products manufactured in China.

Cost and Revenue Synergies. Potential cost synergies, after the acquisition, include costs saved by combining duplicative sales teams and offices of Oriental Wave and Dragon, which may cover the same market area in China and by combining the management of the manufacturing, marketing, human resources, supply chain management and finance operations. We believe that Oriental Wave's

comprehensive sales network in China and Dragon's extensive licensee networks for the international

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market outside of China will enable cross-selling of each other's products to achieve higher sales than both companies could achieve on a stand-alone basis.

Capturing Multiple Growth Opportunities. A growing trend in the generic drug and chemical sectors of the pharmaceutical industry is the relocation of the production of bulk pharmaceutical chemicals from developed countries such as Europe to developing countries such as China and India to leverage the low cost environment and other specific location advantages. We believe that the acquisition of Oriental Wave fits this trend and will enable the combined company to compete more effectively and capture more global business opportunities.

Risks Associated with the Acquisition

There are risks and uncertainties that we face in connection with the proposed acquisition of Oriental Wave. Among the risks are the following:

There may be difficulties with integrating the two existing businesses. The integration of our business with Oriental Wave's will require implantation of a unified business plan, product strategy and administrative structure and the coordination of expanded business operations. We have never completed any acquisition or merger of this size or scope and we may not be successful in integrating the two businesses in a timely and cost effective manner and, as a result, may not achieve the anticipated benefits from this acquisition.

Oriental Wave shareholders will be able to control matters requiring shareholder approval. The three shareholders of Oriental Wave will hold, in the aggregate, 68.35% of our outstanding shares after completion of the acquisition. As a result, they will have the ability to control many matters requiring shareholder approval including approvals of significant corporate transactions requiring majority approval without seeking the approval of the other shareholders. They will also have the ability to significantly influence other matters requiring shareholder approval including our election of directors. This could result in entrenched management.

Oriental Wave has a substantial amount of short term debt. As of June 30, 2004, Oriental Wave had short term notes payable of approximately \$12.9 million of which \$1.8 million is due in September 2004 and the remaining \$11.1 million is due in 2005. Although Oriental Wave has had conversations with its bankers to restructure or renew the notes, no assurances can be given that this will occur.

Oriental Wave's subsidiary, Shanxi Weiqida, relies heavily on the sale of a few products. The top five products sold by Shanxi Weiqida during 2003 represented approximately 72% of Oriental Wave's overall revenue. If, after the acquisition, there is a substantial decrease in the sales of these products, our financial results could be adversely affected.

Initially, we will be relying even more heavily on the China market. All of Shanxi Weiqida's revenue and a significant portion of our revenue was derived from sales in China and it is anticipated that sales of products in China will continue to represent a significant portion of our sales after the acquisition is completed. As a result, any adverse changes in the economic, political and social conditions in China could adversely affect our operating results and financial condition.

These are just some of the risks we face in connection with our proposed acquisition of Oriental Wave. For a complete discussion of these and other risks related to the acquisition and the combined company; see the section entitled "Risk Factors" beginning on page 17.

Recommendation of the Board of Directors

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The Board of Directors has determined that the acquisition of Oriental Wave is in the best interests of Dragon and is fair to our shareholders. Therefore the Board has approved the acquisition and the increase of our authorized shares and recommends that shareholders of Dragon vote FOR the resolution to approve the issuance

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of shares in connection with the acquisition of Oriental Wave and FOR the resolution approving the amendment required to increase our authorized shares in order to complete the acquisition of Oriental Wave in a single closing.

The Board meeting held on May 18, 2004 at which the acquisition was approved was attended by four of the five members of the Board of Directors (Drs. Wick, Liu, Sun and Cai attending and Mr. Yuen absent). All four directors who attended the meeting voted in favor of the Board resolution approving the acquisition. Subject to the finalization of certain business issues between Dragon and Oriental Wave, the President and CEO of Dragon was authorized to sign the Share Purchase Agreement.

Certain of our directors, Messrs. Cai, Liu, Sun and Wick, have advised us that they and certain of their affiliates or other related parties intend to vote FOR the resolution to approve the acquisition and FOR the proposal to increase our authorized capital. We have been advised that this group owns or controls, in the aggregate, 8,192,500 shares of our common stock or 39.8% of our outstanding shares.

Interests of Our Directors and Officers in the Acquisition of Oriental Wave.

The acquisition was negotiated at arm's length and none of the Board of Directors or management of Dragon had any prior connection to Oriental Wave. We are not aware of any additional or unique compensation that will be received by any officer, director, major shareholder or affiliate of Dragon or Oriental Wave in connection with the acquisition.

Management After the Acquisition

On the completion of the acquisition, Oriental Wave will operate as a wholly-owned subsidiary of Dragon. Under the Share Purchase Agreement, we have agreed that Mr. Yanlin Han, Mr. Zhanguo Weng and Ms. Xuemei Liu, will be appointed directors of Dragon. Mr. Han is Chairman of the board of Oriental Wave, Mr. Weng is a director of Oriental Wave and the General Manager of Shanxi Weiqida and Ms. Liu is a Director of Oriental Wave.

Our most senior executive positions after the acquisition will be filled by Mr. Han and our President and CEO, Dr. Wick. Mr. Han will be appointed as our Chief Executive Officer and Dr. Wick will become our President. Dr. Wick and the entire management team will report to Mr. Han. As President, Dr. Wick will be responsible for overseeing our international business and market development. We also intend to appoint a Chief Operating Officer, who will be overseeing our corporate operations and a Chief Financial Officer, who will be overseeing finance, investor relations and corporate compliance.

Summary Unaudited Pro Forma Financial Information

We have prepared pro forma consolidated financial statements to show the effect of the proposed acquisition of Oriental Wave, with the pro forma consolidated balance sheet prepared as though the proposed acquisition had occurred on December 31, 2003 and the pro forma consolidated statement of operation as though it had occurred on January 1, 2003. The exchange of shares will result in the former shareholders of Oriental Wave owning a majority of the shares in Dragon and, consequently, accounting principles applicable to a reverse take-over have

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been applied to record the transaction. Under this basis of accounting, Oriental Wave has been identified as the acquirer and, accordingly, the combined company is considered to be a continuation of the operations of Oriental Wave and include the accounts of Dragon from the acquisition date. The pro forma financial statements have been presented assuming that proposal 2 has been approved increasing the number of shares of authorized common stock and as if proposal 2 has not been approved, in which case Dragon would only acquire 60% of the outstanding common shares of Oriental Wave.

The pro forma consolidated financial statements have been prepared from information derived from the audited consolidated financial statements of Dragon and Oriental Wave as at December 31, 2003 and the unaudited consolidated financial statements of Dragon and Oriental Wave as at June 30, 2004 included elsewhere herein. These pro forma consolidated financial statements should be read in conjunction with the historical financial statements and notes thereto of both Dragon and Oriental Wave for the year ended December 31, 2003 and the six months ended June 30, 2004. These pro forma consolidated financial statements are not necessarily indicative of the

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actual results which would have been attained had the combination been in effect on the date indicated or which may be attained in the future.

The following is a summary of the information included in the pro forma consolidated financial statements.

Pro Forma Consolidated Balance Sheet Data

As of June 30, 2004

	ORIENTAL WAVE	DRAGON	PRO FORMA ADJUSTMENT	100% PRO FORMA CONSOLIDATED	MINORITY INTEREST ADJUSTMENT⁽¹⁾	60% PRO FORMA CONSOLIDATED
Total Current Assets	\$ 17,774,370	\$ 5,739,882	\$ 1,699,900	\$ 25,214,152		\$ 25,214,152
Total Assets	\$ 71,791,336	\$ 8,892,889	\$ 1,699,900	\$ 82,384,045		\$ 82,384,045
Total Liabilities	\$ 51,495,767	\$ 1,325,780	\$ (2,420,000)	\$ 50,401,547		\$ 50,401,547
Total Shareholders Equity	\$ 20,295,569	\$ 7,567,029	\$ 4,119,900	\$ 31,982,498	\$ (8,118,228)	\$ 23,864,270

Pro Forma Consolidated Balance Sheet Data

As of December 31, 2003

	ORIENTAL WAVE	DRAGON	PRO FORMA ADJUSTMENT	100% PRO FORMA CONSOLIDATED	MINORITY INTEREST ADJUSTMENT⁽¹⁾	60% PRO FORMA CONSOLIDATED
Total Current Assets	\$ 12,390,299	\$ 5,622,402		\$ 20,212,701		\$ 20,212,701
Total Assets	\$ 53,126,512	\$ 11,136,052	\$ 137,400	\$ 64,399,964		\$ 64,399,964
Total Liabilities	\$ 38,127,147	\$ 1,428,257	(\$2,420,000)	\$ 37,135,404		\$ 37,135,404
Total Shareholders Equity	\$ 14,999,365	\$ 9,707,795	\$ 2,557,400	\$ 27,264,560	(\$5,999,746)	\$ 21,264,814

Pro Forma Consolidated Statement of Operations Data

For the Six Months Ended June 30, 2004

	ORIENTAL WAVE	DRAGON	PRO FORMA ADJUSTMENT	100% PRO FORMA CONSOLIDATED	MINORITY INTEREST ADJUSTMENT⁽¹⁾	60% PRO FORMA CONSOLIDATED
Sales	\$ 14,475,985	\$ 1,786,415		\$ 16,242,400		\$ 16,242,400
Gross Profit	\$ 7,842,754	\$ 1,344,918		\$ 9,187,672		\$ 9,187,672
Total operating expenses	\$ 3,208,134	\$ 1,821,791		\$ 5,029,925		\$ 5,029,925
Income (Loss) from Operations	\$ 5,450,853	\$ (663,616)		\$ 4,787,237		\$ 4,787,237

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Net Income (Loss) for the year	\$ 5,112,839	\$ (637,427)	\$ 4,475,412	\$ (2,045,136)	\$ 2,430,276
Net Income (Loss) per share - basic and diluted	\$ 102.26	\$ (0.03)	\$ 0.07		\$ 0.05

Pro Forma Consolidated Statement of Operations Data

For the Year Ended December 31, 2003

	<u>ORIENTAL WAVE</u>	<u>DRAGON</u>	<u>PRO FORMA ADJUSTMENT</u>	<u>100% PRO FORMA CONSOLIDATED</u>	<u>MINORITY INTEREST ADJUSTMENT⁽¹⁾</u>	<u>60% PRO FORMA CONSOLIDATED</u>
Sales	\$ 26,086,092	\$ 3,648,149		\$ 29,734,241		\$ 29,734,241
Gross Profit	\$ 12,268,794	\$ 2,463,253		\$ 14,732,047		\$ 14,732,047
Total Operating Expenses	\$ 4,696,419	\$ 4,134,510		\$ 8,830,929		\$ 8,830,929
Income (Loss) from Operations	\$ 7,572,375	(\$2,089,536)		\$ 5,482,839		\$ 5,482,839
Net Income (Loss) for the Year	\$ 7,583,972	(\$1,994,734)		\$ 5,589,238	(\$3,033,589)	\$ 2,555,649
Net Income (Loss) per Share - basic and diluted	\$ 151.68	(\$0.10)		\$ 0.09		\$ 0.05

⁽¹⁾ If the issuance of shares in connection with the acquisition is approved by shareholders but the amendment to increase does not receive the required vote, there will be a partial closing of the acquisition with Dragon issuing approximately 27.37 million shares of common stock in exchange for 60% of the shares of Oriental Wave. Dragon intends to attempt to complete the acquisition once the amendment to increase in the authorized shares is approved. Until that time, there will be a 40% minority interest in Oriental Wave. See The Share Purchase Agreement Consideration to be Received by Shareholders of Oriental Wave .

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Dragon expects to incur reorganization and restructuring expenses as a result of the proposed acquisition. The effect of the estimated acquisition and reorganization costs expected to be incurred has not been reflected in the unaudited pro forma consolidated financial statements. Dragon also anticipates that the acquisition will provide the combined company with some future financial benefits that include reduced operating expenses and opportunities to earn more revenue. However, Dragon does not reflect any of these anticipated cost savings or benefits in the pro forma financial information. Therefore, the pro forma financial information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not attempt to predict or suggest future results. The pro forma financial information also does not attempt to show how the combined company would actually have performed had the companies been combined throughout the periods presented. Dragon has included in the pro forma financial statements all the adjustments necessary for a fair statement of results of the historical periods.

Given the information regarding the proposed acquisition, the actual consolidated financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein because, among other reasons:

assumptions used in preparing the pro forma financial data may be revised in the future due to changes in values of assets or liabilities, including finalization of the calculation of intangibles, and changes in operating results between the dates of the unaudited pro forma financial data and the date on which the acquisition takes place; and

adjustments may need to be made to the unaudited historical financial data upon which such pro forma data are based.

Historical and Pro Forma Per Share Data for Dragon and Oriental Wave

The table below shows the book value and earnings per share for Dragon and Oriental Wave both on a historical and a pro forma basis. Our pro forma data was derived by combining historical consolidated financial information of Dragon and Oriental Wave using the purchase method of accounting for the acquisition. Oriental Wave's equivalent pro forma data was derived by multiplying our pro forma income per share before nonrecurring charges or credits directly attributable to the acquisition and the pro forma book value per share, by the assumed consideration of 44,448,016 shares of Dragon common stock for all shares of Oriental Wave, so that the per share amounts are equated to the respective values for one share of Oriental Wave.

You should read the respective audited and unaudited financial statements and related footnotes of Dragon and Oriental Wave included in this proxy statement/prospectus.

	At or for the Six Months Ended June 30, 2004	At or for the Year Ended
	(unaudited)	December 31, 2003
	<hr/>	<hr/>
Book value per share:		
Dragon	\$ 0.37	\$ 0.47
Oriental Wave	\$ 405.91	\$ 299.99
Dragon pro forma	\$ 0.49	\$ 0.42
Oriental Wave pro forma	\$ 437.20	\$ 373.40

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	At or for the Six Months Ended June 30 , 2004	At or for the Year Ended December 31, 2003
	(unaudited)	
Tangible book value per share:		
Dragon	\$ 0.31	\$ 0.33
Oriental Wave	\$ 396.65	\$ 290.12
Dragon pro forma	\$ 0.47	\$ 0.39
Oriental Wave pro forma	\$ 413.91	\$ 347.99
Basic and diluted earnings (loss) per share:		
Dragon	\$ (0.03)	(\$ 0.10)
Oriental Wave	\$ 102.26	\$ 151.68
Dragon pro forma	\$ 0.07	\$ 0.09
Oriental Wave pro forma	\$ 61.29	\$ 76.68
Number of shares outstanding at the end of each period:		
Dragon	20,582,000	20,262,000
Oriental Wave	50,000	50,000
Pro Forma	65,030,016	64,910,016

Market Price Data

Our common stock began quotation on the OTC Bulletin Board on October 9, 1998 under the symbol DRUG . In addition, our shares of common stock are listed on the Toronto Stock Exchange under the symbol DDD and are quoted on the Berlin-Bremen Exchange, the Frankfurt Exchange and the XETRA Exchange under the symbol DRP . The OTC Bulletin Board represents our primary market. Dragon s common stock being quoted and traded on the Berlin-Bremen Exchange, Frankfurt Exchange and XETRA Exchange are without the Company s prior knowledge. The following quotations reflect the high and low bids for our common stock on a quarterly basis for the most recent quarter and for each quarter in the past two fiscal years as quoted on the OTC Bulletin Board. These quotations are based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. As of June 11, 2004, which represents the last trading immediately before the public announcement of the signing of the Share Purchase Agreement, the closing price of a share of our common stock was \$0.94.

Quarter Ended	Common Stock	
	High	Low
Through August 19, 2004	\$ 1.10	\$ 0.83
June 30, 2004	\$ 1.10	\$ 0.67
March 31, 2004	\$ 1.22	\$ 0.81
December 31, 2003	\$ 1.70	\$ 0.82
September 30, 2003	\$ 1.18	\$ 0.41
June 30, 2003	\$ 0.89	\$ 0.25
March 31, 2003	\$ 0.70	\$ 0.48
December 31, 2002	\$ 0.95	\$ 0.60
September 30, 2002	\$ 1.49	\$ 0.75
June 30, 2002	\$ 1.95	\$ 1.07
March 31, 2002	\$ 1.90	\$ 1.53

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Oriental Wave is a privately held British Virgin Islands corporation. Its common shares are not listed on any exchange nor quoted on any automated quotation system. There is no market for Oriental Wave's common shares.

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Dividends

Neither we nor Oriental Wave have paid any dividends on our common stock and may not do so in the future. For the foreseeable future, we expect earnings, if any, will be retained to finance the growth of the combined company.

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RISK FACTORS

You should carefully consider the risks described below before voting on the proposals, and in particular Proposals 1 and 2, contained in this proxy statement/prospectus. If any of the following risks occur, the business, financial condition or results of operations of the combined company after the acquisition could be materially harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to the Acquisition

Oriental Wave's shareholders will be able to control matters requiring shareholder approval.

Upon completion of the proposed share exchange, Oriental Wave's shareholders, Messrs. Han and Weng and Ms. Liu, will, in the aggregate, own 68.35% of our issued and outstanding shares of common stock. As a result, these shareholders will be able to control certain corporate governance matters requiring shareholders' approval, including the approval of significant corporate transactions and any other transactions requiring a majority vote without seeking other shareholders' approval. They will also have the ability to control other matters requiring shareholder approval including our election of directors which could result in the entrenchment of management. To our knowledge, Oriental Wave's shareholders have not indicated to us a desire to sell their shares to be acquired in the share exchange in the near future, however, any such sale could make it more difficult for our current shareholders to sell their shares or could result in significantly reduced prices.

The acquisition may fail to achieve the expected benefits.

We have entered into an agreement to acquire Oriental Wave in an effort to obtain additional sales and operating efficiencies, among other benefits. These expected benefits may not be achieved. Whether we ultimately realize these benefits will depend on a number of factors, many of which are outside our control including our success in integrating Oriental Wave's operations, technological changes, the impact of competitive forces, and other general market conditions or economic factors specific to the pharmaceutical industry in general. Even if we are able to integrate our respective operations and if economic conditions remain stable, there can be no assurance that the anticipated benefits will ever be achieved. The failure to achieve such benefits could have a material adverse effect on the business, results of operations and financial condition of the combined company after the acquisition is completed.

We may not be able to successfully integrate Oriental Wave and its subsidiary, Shanxi Weiqida, into our business, and the integration process will place significant demands on our managerial resources.

The integration of Oriental Wave and its subsidiary, Shanxi Weiqida, into our business will pose many challenges, including the development and implementation of a unified business plan, product strategy and administrative structure, consolidation of a combined sales and marketing network in China, coordinating expanded business operations, and retaining key employees from our current business and from Oriental Wave and Shanxi Weiqida. We have not completed any acquisition or merger of this size or scope. Thus, we cannot assure you that we will be able to successfully integrate the operations of Oriental Wave and Shanxi Weiqida in a timely or cost-effective manner and achieve the anticipated benefits. The integration may also divert the attention of, and place significant demands on, our managerial resources and disrupt our current business operations. There can be no assurance that such integration will be accomplished smoothly or successfully. The inability of management to successfully integrate the operations of the two companies could have a material adverse effect on our business, results of

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operations and financial condition including, without limitation, our sales and marketing efforts. Consequently, our results of operations may be adversely affected. We have estimated that the integration of the two companies will take approximately six months including consolidating the sales network and reorganizing the headquarters in Vancouver to have a unified corporate governance and management system, establishing a Chinese headquarters for the overall management of our business activities in China, and to combine our international market

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development. Since neither side has ever been involved in a business combination of this size, unexpected difficulties may result and it may take a longer time than we estimate to fully accomplish the integration process.

Risks Related To Oriental Wave and its Subsidiary, Shanxi Weiqida

Oriental Wave must restructure its short-term loans.

As of June 30, 2004, Oriental Wave had a working capital deficit of \$16,810,887, and short term notes of \$12.9 million. Oriental Wave is currently in the process of restructuring or renewing these short-term loans. If Oriental Wave is not successful in restructuring such short-term loans, this may have an adverse affect, including the limitation of growth on its operations as well as the operations of the combined company after the acquisition is completed.

Shanxi Weiqida relies heavily on the sale of a few products.

Shanxi Weiqida's top five products for 2002 and 2003 were Amoxicillin Sulbactam, Mezlocillin, Cloxacillin, Metronidazole and Ampicillin Cloxacillin, while the top five products for the first six months of 2004 were Amoxicillin Sulbactam, Mezlocillin, Metronidazole, Ampicillin Cloxacillin and Amoxicillin Sodium/Clavulanate Potassium. The top five products sold by Shanxi Weiqida amounted to approximately \$9.5 million and \$18.8 million of its sales during 2002 and 2003, respectively, representing approximately 85% and 72% of Oriental Wave's overall sales for those periods. Although we do anticipate that there will be a material change in demand for these products, a change in demand for these products due to world competition, market forces or other factors outside of its control, could adversely affect our sales and net income and the sales and net income of the combined company after the acquisition.

During 2002, 2003 and the first six months ended June 30, 2004, sales to Shanxi Weiqida's five largest distributors of pharmaceutical products in China accounted for approximately 15.3%, 11.5% and 8.4% of Shanxi Weiqida's overall sales, respectively. These distributors in turn distribute Shanxi Weiqida's products to its ultimate customers. Sales to Shanxi Weiqida's largest distributor accounted for approximately 5.5%, 3.5% and 2.4% of Shanxi Weiqida's sales respectively for the same periods. Although sales to the largest distributor have accounted for a decreasing percentage of Shanxi Weiqida's overall sales, Shanxi Weiqida believes that the loss of this distributor may require Shanxi Weiqida to generate sales through new distributors.

Shanxi Weiqida is required to contribute a portion of its net income to a Statutory Reserve Fund which may not be distributed.

By law, Shanxi Weiqida is required to contribute at least 10% of its after tax net income (as determined in accordance with Chinese GAAP) into a statutory surplus reserve until the reserve is equal to 50% of Shanxi Weiqida's registered capital, and between a further 5% and 10% of its after tax net income, as determined by Shanxi Weiqida's Board of Directors, into a public welfare fund. These reserve funds are recorded as part of shareholders' equity but are not available for distribution to shareholders other than in the case of a liquidation. As a result of this requirement, the amount of net income available for distribution to shareholders will be limited.

Risks related to the Combined Company after the Acquisition

Oriental Wave has a negative working capital which may slow growth.

As of June 30, 2004, Oriental Wave had a negative working capital of \$16,810,887 and short-term notes due of \$12.9 million. Oriental Wave is currently negotiating with its banks to restructure or renew its notes. Assuming that Oriental Wave is successful in renegotiating its notes and that vendors continue to work with Oriental Wave as to their accounts payables, Oriental Wave believes that it will be able to continue to fund its operations from product sales for the near future. However, this negative working capital may limit Oriental Wave's growth, and the growth of the combined company, since the majority of its earnings will be used to pay accounts payable and existing debts. Further, if Oriental Wave is unsuccessful in restructuring and renewing its notes or if vendors

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demand immediate payment, these actions will adversely affect operations and may require Oriental Wave to sell certain assets to pay off liabilities.

We may be subject to product liability claims in the future that could harm our business and reputation.

Product liability claims may arise if harmful products are sold to members of the public or if there are any alleged harmful effects from the consumption of our products. Under current Chinese laws, manufacturers and vendors of defective products in China may incur liability for loss and injury caused by such products, including having their business licenses revoked and facing criminal liability. Consistent with industry practice in China, Shanxi Weiqida does not carry liability insurance coverage. Should any product liability claim be brought against us, there is no assurance that it would not have an adverse impact on our business, profitability or business reputation.

We will be dependent upon the services of Mr. Han

Upon the consummation of the acquisition, it is anticipated that Mr. Han, our largest shareholder after the acquisition, will serve as CEO. As a result, our operations will be dependent on Mr. Han who has been the driving force behind Oriental Wave and Shanxi Weiqida. If something happens to Mr. Han, this could divert management's time and attention and adversely effect our ability to conduct the combined business effectively.

Risks Related to the People's Republic of China

Shanxi Weiqida relies heavily on the China market and changes in the market could harm our business.

During 2002 and 2003, 100% of Shanxi Weiqida's sales were derived from China. It is anticipated that Shanxi Weiqida products in China will continue to represent a significant portion of Oriental Wave's sales in the near future. As a result of its reliance on the China market, the operating results and financial performance of Oriental Wave and the combined company after the acquisition is completed could be affected by any adverse changes in economic, political and social conditions in China. For example, if legislative proposals for pharmaceutical product pricing, reimbursement levels, approval criteria or manufacturing requirements should be proposed and adopted, such new legislation or regulatory requirements may have a material adverse effect on our financial condition, results of operations or cash flows. In addition, we will be subject to varying degrees of regulation and licensing by governmental agencies in China. There can be no assurance that future regulatory, judicial and legislative changes will not have a material adverse effect on Shanxi Weiqida, that regulators or third parties will not raise material issues with regard to compliance or non-compliance with applicable laws or regulations or that any changes in applicable laws or regulations will not have a material adverse effect on Shanxi Weiqida or our operations.

Certain Shanxi Weiqida products are subject to price controls and if the related manufacturing costs increase, our potential profits may be harmed.

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In July 2000, in an effort to enhance market competition in the pharmaceutical industry and to reduce medical expenses, the former State Development and Planning Commission of the People's Republic of China promulgated a new policy to reform the price control of pharmaceutical products in China. According to the policy, the price of pharmaceutical products is subject to the control by government bureaus at state and provincial levels. In the event that the sale prices of our products are limited by government bureaus at the state and provincial levels, this may have an adverse effect on our net income, especially if our costs associated with those products increase. Approximately 22 out of the 35 products from the Pharma Division of Shanxi Weiqida, accounting for approximately 39% of 2003 sales and 43% of sales in the first six months of 2004, are subject to governmental imposed retail price controls in China. If manufacturing costs increase for products of Shanxi Weiqida that are subject to price ceilings, and the retail price for those products is not adjusted upwards, Oriental Wave's profitability may be adversely affected as well as the profitability of the combined company after the acquisition.

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Shanxi Weiqida is required to maintain compliance with GMP standards.

All pharmaceutical manufacturers in China, including Shanxi Weiqida, are required to comply with certain Good Manufacturing Practice, or GMP, standards by certain time limits and, if not met, their pharmaceutical manufacturing enterprise permits will be revoked or they will not be renewed and accordingly production will have to be terminated. A GMP certificate is valid for five years from the issuance date of such certificate.

Shanxi Weiqida has been accredited with all GMP certificates it requires for its production facilities. Shanxi Weiqida's GMP certificate for the Pharma division facility will expire and is subject to renewal in August 2008 and the GMP certificate for the Clavulanic Acid facility of the Chemical division will expire and is subject to renewal in January 2009. The standard of compliance required in connection with GMP certificates may change from time to time, which may give rise to substantial compliance burdens and increase Shanxi Weiqida's costs in the future. If the renewal of any required GMP-related status is not granted, the relevant operations of Shanxi Weiqida may have to be terminated which in turn would have an adverse impact on the profitability of Oriental Wave and the combined company after the acquisition is completed.

Currency conversion and exchange control could adversely effect our operations and profitability.

The sales and expenses of Shanxi Weiqida are substantially settled in Renminbi, or RMB. However, our accounts are denominated in U.S. dollars. Accordingly, after the completion of the acquisition of Oriental Wave, our net income, the value of our assets and our ability to pay dividends, if any, in U.S. dollars may be adversely affected by negative changes in the exchange rate of RMB against the U.S. dollar or other currencies.

Major reforms have been introduced to the foreign exchange control system of China. In 1994, the previous dual exchange rate system for RMB was abolished and a unified floating exchange rate system, based largely on supply and demand, was introduced. Since December 1996, under the rules of International Monetary Fund, or IMF, China has provided a free exchange of current accounts, while capital accounts have been subject to foreign exchange control. Foreign exchange transactions under a capital account, including foreign currency-denominated borrowings from foreign banks and principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. However, the payment in and transfer of foreign exchange for current international transactions, such as the payment of dividends or other distributions to shareholders, is deemed a current account and therefore is not subject to Chinese government controls or restrictions. Although China's commitment to IMF is unlikely to change, limitations on foreign exchange could affect our ability to obtain foreign exchange for capital expenditures and we continue to be exposed to negative changes in exchange rates.

We may be adversely affected by government plans to consolidate state owned pharmaceutical companies in China.

The Ministry of Commerce of China has announced a plan to consolidate nearly 5,000 state owned pharmaceutical companies into approximately 12 to 15 companies. The planned consolidation has already commenced and is anticipated to continue until the goals of the Ministry of Commerce have been realized. The Ministry of Commerce has set a near term goal of having 10 large companies with annual sales of over approximately \$600 million by 2005 and its longer-term goal is to have the consolidated firms have \$5.0 billion in revenue by 2010. We are not currently aware, however, of how many companies have been consolidated or when the planned consolidation will be completed. Such consolidation could result in increased competition from companies that will be larger and have greater resources than us. Larger competitors enjoy the benefits of economies of scale and therefore may be able to afford to sell competing products at lower prices than Shanxi Weiqida. This will have an adverse effect on Shanxi Weiqida's profitability and the profitability of the combined company after the acquisition.

Shanxi Weiqida does not have patent protection and is subject to substantial competition.

Shanxi Weiqida competes in the generic drug segment of the pharmaceutical industry and has no patent protection for any of its products. Many pharmaceutical companies compete in the same market segment with

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similar products or products having comparable medicinal applications or therapeutic effects which may be used as direct substitutes for Shanxi Weiqida's products. Further, many of these competitors are larger and have greater resources and market presence than Shanxi Weiqida. Larger competitors may, as a result of economies of scale, be able to afford to sell competing products at lower prices than Shanxi Weiqida. This will have an adverse effect on Shanxi Weiqida's profitability as well as the profitability of the combined company after the acquisition. These competitors include Harbin Pharmaceutical Group Holding Co. Ltd, Shijiazhuang Pharmaceutical Group Co., Shandong Royoung Pharmaceutical South Pharmaceutical and Jiangxi Dangfeng Pharmaceutical. As a result of the lack of patent protection, competitors with potential substitutes could launch similar products in the market with their prices analogous with or lower than those manufactured and sold by Shanxi Weiqida. Further, the lack of patent protection could also attract an even greater number of competitors who believe they can develop products that are substantially similar to those of Oriental Wave at a lower cost.

Expansion into overseas markets could pose additional risks.

Shanxi Weiqida plans to expand sales of products from its Pharma and Chemical Divisions into overseas markets including developing and developed countries. These markets are untested for Shanxi Weiqida's products and Shanxi Weiqida, as well as the combined company after the acquisition, faces risks in expanding the business overseas, which include differences in regulatory product testing requirements, patent protection, taxation policy, legal systems and rules, marketing costs, fluctuations in currency exchange rates and changes in political and economic conditions.

Chinese economic planning could negatively impact the pharmaceutical market in which our products are sold.

China has a long history of a planned economy and is still subject to plans formulated by the Central Chinese government. In recent years, the Chinese government has introduced economic reforms aimed at transforming the Chinese economy from a planned economy into a market economy with socialist characteristics. These economic reforms allow greater utilization of market forces in the allocation of resources and greater autonomy for enterprises in their operations. However, many rules and regulations implemented by the Chinese government are still at an early stage of development and further refinements and amendments are necessary to enable the economic system to develop into a more market oriented form. No assurance can be given that any change in economic conditions as a result of the economic reform and macroeconomic measures adopted by the Chinese government will have a positive impact on the Chinese economic development or its pharmaceutical sector, which is the market where our products are sold. At the same time, there can be no assurance that such measures will be consistent and effective or that we will benefit from or will be able to capitalize on all such reforms.

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**PROPOSAL 1 ISSUANCE OF SHARES IN
CONNECTION WITH THE ACQUISITION OF ORIENTAL WAVE**

We have entered into a Share Purchase Agreement with the shareholders of Oriental Wave under which all outstanding shares of Oriental Wave will be exchanged for shares of our common stock. Oriental Wave, a holding company incorporated in the British Virgin Islands, is the sole owner of all outstanding shares of Shanxi Weiqida, a Chinese generic pharmaceutical company.

In order to acquire control of Oriental Wave and, indirectly, Shanxi Weiqida, we intend to issue our common stock to the shareholders of Oriental Wave in exchange for all of their shares in Oriental Wave. The total number of shares of Dragon common stock to be issued will equal 68.35% of the outstanding shares of Dragon common stock after the acquisition of the Oriental Wave shares, as calculated on a fully diluted basis. Such ownership percentage is fixed and is not subject to change as a result of any fluctuation in the price of Dragon's stock. The rules of the Toronto Stock Exchange require that transactions of the nature proposed with Oriental Wave be approved by our shareholders.

Based on 20,582,000 shares of our common stock outstanding and 2,046,500 shares reserved for future issuance as of August 19, 2004, we estimate that we will issue up to an aggregate of approximately 48.9 million shares of common stock to complete the share exchange with the Oriental Wave shareholders. We currently have 50,000,000 shares of common stock authorized. As a result, we do not have a sufficient number of authorized and unissued shares to fully satisfy our commitment to issue shares to the Oriental Wave shareholders under the Share Purchase Agreement. Accordingly, at the meeting shareholders will also be asked to approve a resolution to amend our Certificate of Incorporation to increase the number of our authorized shares (see Proposal 2).

If the issuance of shares is approved by shareholders (this proposal requires a majority vote by shareholders who vote in person or by proxy) but the amendment to increase our authorized shares does not receive the required vote (this matter requires a majority of all outstanding shares to be voted in favor of the proposal rather than just a majority vote of shares voted) we and the shareholders of Oriental Wave have agreed to complete the share exchange in two stages. The first stage of the acquisition would result in 60% of the shares of Oriental Wave transferred to us in exchange for approximately 27.37 million shares of our common stock. This will result in our controlling 60% of the outstanding shares of Oriental Wave and the Oriental Wave shareholders owning, as a group, approximately 54.74% of our shares of common stock as calculated on a fully diluted basis (57.08% on a non-dilute basis) and 40% of the common shares of Oriental Wave. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the shareholders of Oriental Wave will hold a sufficient number of our outstanding shares to be able to guarantee shareholder approval of the increase of our authorized shares necessary to complete the acquisition. We intend to complete the balance of the acquisition of shares of Oriental Wave as soon as practicable after our authorized shares have been increased. We and the shareholders of Oriental Wave may change the number of shares issued and acquired in the first closing, though we will not complete the first closing unless we acquire more than 50% of the outstanding shares of Oriental Wave. See The Share Purchase Agreement Consideration to be Received by the Shareholders of Oriental Wave.

The Acquisition

Under the Share Purchase Agreement, we have agreed to acquire from Mr. Yanlin Han, Mr. Zhanguo Weng and Ms. Xuemei Liu all of the outstanding shares of Oriental Wave in exchange for shares of our common stock. The resulting ownership of the combined company will be 68.35% for Oriental Wave shareholders and 31.65% for Dragon's shareholders. The 68.35% ownership percentage is fixed and is not subject to change as a result of any fluctuation in the price of Dragon's stock. Shanxi Weiqida, a Chinese generic pharmaceutical manufacturer, is a wholly-owned subsidiary of Oriental Wave.

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The following diagram sets out the share ownership in Dragon after the acquisition. All percentages are based on the number of our shares outstanding as of June 30, 2004 and calculated on a fully diluted basis.

- (1) If our shareholders do not approve the amendment to our Certificate of Incorporation to increase our authorized shares at the meeting (see Proposal 2), we and the shareholders of Oriental Wave have agreed to complete the acquisition in two stages. In the first stage, we would acquire 60% of the outstanding shares of Oriental Wave in consideration for approximately 27.37 million shares of our common stock. In the second stage, which we intend to complete after we receive shareholder approval to increase our authorized shares, we would acquire the remaining 40% of the outstanding shares of Oriental Wave in consideration for the remaining share consideration that is payable by us under the Share Purchase Agreement. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the shareholders of Oriental Wave will hold a sufficient number of our outstanding shares to be able to guarantee shareholder approval of the increase of our authorized shares necessary to complete the acquisition. See - The Purchase Agreement Consideration to be Received by Shareholders of Oriental Wave .

Background to the Acquisition

September 2002: On September 10, 2002, Mr. Han, Chairman of Oriental Wave was introduced to Mr. Robert Walsh, our Director of Corporate Development by a mutual friend of Mr. Han and Mr. Walsh since the friend knew that they were both in pharmaceutical business in China. Mr. Han visited Mr. Walsh at our headquarters in Vancouver, Canada. During the meeting, Mr. Walsh and Mr. Han shared their experience of selling and marketing pharmaceutical products in China. However, nothing related to the proposed acquisition or any kind of business cooperation was discussed during this meeting.

October 2002: Dr. Alexander Wick replaced Dr. Liu to become our President in October 2002. The key agenda for Dr. Wick was to improve our sales performance in China and on international markets as well as to formulate a European strategy for our EPO product. Given our size and the fact that we had only one product in the market, it would be very costly for us to set up a nation-wide sales network in China and simultaneously support the European market development on our own. As a result, we began an internal review of various strategic options including, but not limited to, developing the European market alone or, merging with, partnering with or setting up a joint venture with another company.

Early April, 2003: We received a verbal indication from a pharmaceutical company that it was interested in forming a joint venture with us to produce EPO in China in exchange for a discount in the selling price of EPO supplied to this pharmaceutical company. Our management reviewed the business proposal and determined that it was not to our advantage since the plan:

would only contribute operational capital for the production facility in China,

would not strengthen sales in China because the other pharmaceutical company did not have any sales infrastructure or market exposure in China,

would not form an alliance for strategic development, since the other party was only looking for a steady and low-price EPO producer,

would make our corporate structure more complicated, and

would not offer any additional products to Dragon to lessen our reliance on only one product.

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No further discussions were held with this pharmaceutical company.

Oriental Wave's representative in Canada, Ms. M. Deng, approached Dr. Wick and Garry Wong, Executive Assistant to the President and CEO, to discuss if there was interest in any possible cooperation between Oriental Wave and us. Before the meeting, the parties entered into a non-disclosure agreement dated April 1, 2003. Ms. Deng met with Dr. Wick and Mr. Wong in Vancouver and gave Dr. Wick and Mr. Wong a brief overview of the business of Oriental Wave. At the meeting the parties agreed that both companies:

have a similar business model and established production bases in China in order to benefit from the cost competitiveness and the market potential,

are targeting primarily the developing countries and, eventually, developed countries such as the European Union,

have very active business exposure in India, and

are complementary to each other: Dragon has its shares listed for trading and an international sales network while Oriental Wave has a well established sales network in China.

As a result, it was determined that it was worth exploring further the feasibility of a combination of the two companies and that both sides should value the deal based on the business fundamentals and not based on Dragon's stock price;

June 2003: A Dragon Board Meeting was held in Vancouver, British Columbia, on June 26, 2003, at which an information package and preliminary financial and non-financial analysis, including a valuation of the proposed transaction with Oriental Wave prepared by management, was submitted to all of the Directors. The Board authorized Dr. Wick to continue the discussions with Oriental Wave and visit the manufacturing facility of Oriental Wave's subsidiary, Shanxi Weiqida, in Datong City. Due to the outbreak of Severe Acute Respiratory Syndrome in China the visit was postponed to August 2003.

August 2003: From August 5, 2003 to August 7, 2003, Dr. Wick and Mr. Wong visited the headquarters and facility of Oriental Wave's subsidiary, Shanxi Weiqida, in Datong City, China and met with Mr. Han, Chairman of Shanxi Weiqida and Mr. Weng, General Manager and Director of Shanxi Weiqida. As a chemist by training and a former president of a fine chemicals company producing Pharmaceutical Chemicals, Dr. Wick observed and assessed the whole facility including production lines, buildings, equipment, quality assurance and quality control and other supporting infrastructure such as power and water supply; his judgment was largely positive. Financial information was exchanged and discussed between Mr. Han and his management team and Dr. Wick and Mr. Wong.

Subsequently, between August 12, 2004 and August 15, 2004, Shanxi Weiqida's management visited the Nanjing Huaxin Biopharmaceuticals Co., Ltd. production facility in Nanjing, China, of our subsidiary, and met with management of our subsidiary. At the same time, Dr. Wick and Mr. Han began preliminary discussions on the broad parameters of the acquisition including the structuring of the acquisition as a share exchange such that Oriental Wave would become our subsidiary.

Early September, 2003: Mr. Han, Chairman of Oriental Wave, visited our Vancouver headquarters on September 9, 2003, to meet with our management team (James Harris, Robert Walsh and Matthew Kavanagh), two Directors and Gary Ho, a consultant to Dragon at that time. Mr.

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Han met with Dr. Wick and Dr. Liu in person and had a telephone conference call with Dr. Sun in Hong Kong. Before his arrival in Vancouver, Mr. Han also met with Dr. Cai in Beijing, China. Our other Board Member, Mr. Yuen, was not available for a conference call with Mr. Han.

At a Board meeting held in Vancouver on September 10, 2003, which was attended, in person or by telephone, by all of our Board members (Dr. Wick, Dr. Sun, Dr. Liu, Dr. Cai and Mr. Yuen), our management submitted an updated financial and business issue analyses and valuation. Our Board unanimously approved a motion authorizing our management to continue negotiations with the shareholders of Oriental Wave. The Board also determined that they would meet with Shanxi Weiqida's management and visit its facility in Datong City.

Dr. Wick and Mr. Han subsequently met in Vancouver on September 11, 2003 and discussed their expectations concerning the amount of consideration to be paid but no final agreement was reached.

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Late October/November, 2003: Three members of our Board (Dr. Liu, Dr. Sun and Dr. Cai) and Mr. Gary Ho, a Dragon consultant, visited Shanxi Weiqida's facility in Datong City between October and November 2003. Dr. Liu visited Shanxi Weiqida's facility on October 24, 2003, and the rest visited from October 31, 2003 to November 2, 2003. One of our other Board members, Mr. Yuen, declined to join the visit. After the site visit, a Board Meeting was held in Beijing, China from November 3, 2003 to November 4, 2003. At that meeting the Board of Directors passed a motion authorizing management to negotiate a Letter of Intent between Dragon and Oriental Wave and to start the due diligence process. The resolution was approved by a majority of the directors, with Drs. Wick, Sun, Liu and Cai voting in favor and Mr. Yuen voting against. Mr. Yuen indicated that he did not feel comfortable going forward with the merger and wanted to evaluate another company to sell our EPO product in China. Following the meeting, Fangda Partner was retained as legal counsel in China to perform legal and general due diligence on Shanxi Weiqida.

Subsequent to the Board Meeting, several members of our Board (Dr. Wick, Dr. Cai and Mr. Yuen) met with Mr. Han in Beijing on November 5, 2003 and discussed some specific business issues. To facilitate the acquisition, at the meeting Mr. Han agreed to transfer \$2.4 million (RMB 20 million) from the loan owed to a related company by Shanxi Weiqida into paid-in capital of Shanxi Weiqida.

Early December, 2003: On December 1, 2003, Ms. Deng of Oriental Wave visited our headquarters in Vancouver to conduct due diligence on us and our international business.

Mid-December, 2003: In light of the fact that Dragon is listed on the Toronto Stock Exchange, we approached 13 major financial institutions in Canada to discuss their willingness and ability to provide a fairness opinion in connection with the proposed acquisition. Our staff met with eight of the 13 financial institutions and received two verbal quotes and one written quote with a range from \$300,000 to \$1 million in fees plus expenses, but the time required to perform the due diligence process was estimated to last from four to eight months due to their lack of experience, knowledge or qualified personnel to complete the fairness opinion process in China. Based on the discussions with these financial institutions, Dragon's management believed that this transaction was either too small to be of interest to them or they would not have the internal capabilities to conduct the necessary due diligence and valuation process in China without partnering with financial institutions based in China or Hong Kong, which would make the process very time consuming and costly to us. Based on the availability of internal personnel within Dragon who have extensive qualifications and industry experience in the Chinese market and mergers and acquisitions necessary to execute this proposed acquisition, management decided not to require any external investment banker to advise on the proposed acquisition.

Early January 2004: Due diligence was conducted by our management, including management of our Chinese subsidiary, and by our legal counsel Fangda Partners in China. Subsequently, due diligence was conducted by management of Shanxi Weiqida on our Chinese subsidiary and its business in China.

At the suggestion of two Board Members, Dr. Wick, our President and CEO, met with the CEO of another Chinese pharmaceutical company (other than Shanxi Weiqida) in Beijing on January 12, 2004 to discuss a possible alternative transaction with that Chinese pharmaceutical company. Our management understood that at that time a member of Dragon's Board (Mr. Yuen) was a director of this other company. At the meeting, Dr. Wick made requests for additional information about the Chinese pharmaceutical company and was advised by the CEO of that company that the information would be provided. None of the requested information was ever provided, nor has Dr. Wick ever received any further news or interest from that other Chinese pharmaceutical company. In addition, preliminary internal analysis by our management based on public information indicated that no synergy could be expected between us and that Chinese pharmaceutical company for the following reasons:

The other company is short of capital for future development;

The two companies have completely different business models;

The other company does not have any sales force in China that could increase the sales of our EPO; and

The other company is listed on another stock exchange with very low trading volume and little institutional coverage, so combining the two companies would only cause additional complications and additional cost for the compliance with different stock exchanges.

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In addition, given that one of our directors (Mr. Yuen) was also the director of this other Chinese pharmaceutical company and that our management intended to avoid any non-arm's length transaction, our management determined that this transaction was not a viable alternative to the proposed acquisition of Oriental Wave and therefore no further discussion or action by the Board was taken.

Also, on January 16, 2004, Dr. Wick met Ms. Liu, one of the three shareholders and a director of Oriental Wave in Beijing to go over the timeline and status of the proposed acquisition. No specific terms of the proposed acquisition were discussed.

Early February 2004: Mr. Yuen, a director of Dragon, was scheduled to visit the facility of Shanxi Weiqida in Datong, China from February 9, 2004 to February 11, 2004 and meet with the management team of Shanxi Weiqida. However, on February 8, 2004, Mr. Yuen cancelled the scheduled visit without citing any reason.

Late February 2004: Dragon and Oriental Wave's management commenced meaningful negotiations on the terms and conditions including the consideration, as outlined in the Letter of Intent for our proposed acquisition of Oriental Wave. We engaged Bartel Eng & Schroder in California and Lang Michener LLP in British Columbia as legal counsel while Oriental Wave engaged Bull Housser & Tupper LLP of British Columbia to help negotiate the letter of intent. Based on mutual negotiations and each parties' internally prepared valuations based on public, in the case of Dragon, and private, in the case of Oriental Wave, information the consideration was agreed to be 68.35% ownership of the combined company after the transaction for Oriental Wave shareholders and 31.65% for Dragon shareholders. It was also agreed that such percentage ownership would not be subject to change as a result of any fluctuation in the stock price of Dragon but would be subject to change based on the results of mutual due diligence.

Mid-March 2004: On March 10, 2004, our management submitted a draft of a Letter of Intent and due diligence reports detailing the results of business due diligence completed by our management and our subsidiary's management in China and legal due diligence completed by our Chinese legal counsel. Based on these due diligence reports, our Board of Directors determined that no change was required to the proposed ownership ratio of the 68.35% ownership of the combined company after the transaction for Oriental Wave shareholders and 31.65% for Dragon shareholders.

On March 15, 2004, the Board of Directors of Dragon passed a motion to authorize the signing of the Letter of Intent with the shareholders of Oriental Wave regarding the proposed acquisition, pending the receipt of a report of Oriental Wave's auditor on the status of completion of the audited financial statements of Oriental Wave. The resolution was approved by a majority of the directors, with Drs. Wick, Sun, Liu and Cai voting in favor and Mr. Yuen voting against. Mr Yuen indicated that he did not know the shareholders of Oriental Wave and wanted an independent financial advisor.

March 24, 2004: Dragon announced publicly the entering into of a Letter of Intent with Oriental Wave regarding the proposed acquisition.

April 2004: Dragon and Oriental Wave's management commenced negotiations on the Share Purchase Agreement. Negotiations were conducted through telephone conferences and through legal counsel.

Late-May 2004: At a Board of Directors meeting held on May 18, 2004 in Vancouver, Dragon's management submitted a project presentation with updated business issues and financial analysis, including an internally prepared valuation. The Directors attending the meeting unanimously passed a motion to approve the acquisition of Oriental Wave and authorized the signing of the Share Purchase Agreement, subject to the

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finalization of certain business issues by our President and CEO. The board meeting was attended by Drs. Wick, Sun, Liu and Cai. Mr. Yuen was absent from the meeting. The Board agreed with management's recommendation that hiring an external financial advisor for the proposed acquisition was not required given the qualifications, experience and expertise of Dragon's internal personnel in the pharmaceutical industry, the Chinese market and the acquisition process and also considering the cost involved in hiring such an external advisor.

June 11, 2004: Dragon and the shareholders of Oriental Wave signed the Share Purchase Agreement.

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Reasons for the Acquisition

We believe that the acquisition represents an important strategic step for us that will strengthen our competitive position. Combining the businesses of Dragon and Oriental Wave into one unified organization will expand our range of products, allow us to leverage the marketing network built over the years in China and international markets by both companies and improve our ability to execute our combined business strategy. These benefits will enable us to better capitalize on attractive global market opportunities in the generic pharmaceutical sector as well as the bulk pharmaceutical chemical sector and position us for increased revenue and growth. Among the benefits we anticipate realizing from the acquisition are the following:

Achievement of Critical Scale. Currently, Dragon is a relatively small company and is often considered as a minor participant in the global pharmaceutical industry. After the transaction, Dragon will have substantially increased its scale in terms of asset size, range of products offered, number of employees, manufacturing capabilities and numbers of manufacturing facilities. With this increase in size, Dragon expects to be able to attract more market attention and generate more business opportunities with customers and business partners and, therefore, will more effectively execute Dragon's business strategy and compete in our target market in the global pharmaceutical industry. Here is a comparison of Dragon as a stand alone entity and Dragon after the acquisition of Oriental Wave.

	<u>Dragon Alone</u>	<u>Dragon Combined with Oriental Wave</u>
2003 Sales	\$3.6 million	\$29.7 million ⁽¹⁾
2003 Net profit	Net loss of \$2.0 million	Net profit of \$5.6 million ⁽¹⁾
Key products	Two biotech products (EPO & G-CSF (in-licensed))	35 pharmaceutical products Four chemical products Two biotech products Approximately 290 products
Total number of product permits issued in China	One owned (EPO) and one in-licensed (G-CSF)	Approximately 1,850 (plus over
Employees	Approximately 150	1,200 sales representatives retained on a contract basis) 63 sales offices
Sales organization in China	17 sales offices	63 sales managers with over 1,200
Production facilities	11 sales managers with 45 sales representatives One biotech facility	sales representatives Four facilities: One pharmaceutical facility Two chemical facilities One biotech facility

⁽¹⁾ A full copy of our pro forma consolidated financial statements showing the effect of the acquisition of Oriental Wave are included in this proxy statement/prospectus on page F-71.

Diversification. We believe the acquisition will facilitate our continued transition from a single product company to a diversified player offering a broader and more proven product line of pharmaceutical, chemical and biotech products. Dragon believes the breadth and nature of the combined product portfolio is a competitive advantage for the combined company. In addition, the diversification impact of the acquisition will not only mitigate the overall business risk profile of Dragon but also enable Dragon to operate in multiple sectors of the global pharmaceutical market.

Complementary Sales Platform. Oriental Wave, through its subsidiary, Shanxi Weiqida, maintains direct and indirect sales networks in China. Its direct sales network consists of sales offices established throughout China to market, promote and sell Shanxi Weiqida's products. Such sales offices are managed by Sales Managers employed by Shanxi Weiqida. Its indirect sales network consists of 10 nationwide and 12 district-wide agents to sell and distribute products. These indirect sales networks are similar to a third-party agency and they are not considered employees of Oriental Wave or Shanxi-Weiqida. The direct and indirect sales networks of Oriental Wave should compliment Dragon's existing licensing and third party distribution arrangements in approximately 130 countries,

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out of which Dragon generates sales from five countries, namely Brazil, Egypt, India, Peru and Ecuador. In addition, Dragon sells its products directly through its sales offices in China. We expect that this complementary distribution platform will give the combined company a market reach that provides strong coverage of the combined product portfolio in both the Chinese and international markets. This is expected to accelerate the distribution of Dragon's products into Oriental Wave's core Chinese market and Oriental Wave's products into Dragon's world-wide distribution arrangements. We believe that this enhanced sales platform will:

create additional revenue synergies by cross-selling Dragon's product in China because both Dragon and Oriental Wave's products are sold through hospitals where Oriental Wave has greater strength with its over 1,200 sales representatives; and

enable the development of an international market for Oriental Wave's pharmaceutical products because of Dragon's strengths and experience in international regulatory affairs and selling internationally pharmaceutical products produced in China.

Complementary Management Expertise. Following the acquisition, we will combine the management team of Oriental Wave, which has extensive experience in pharmaceutical product manufacturing operation and sales and marketing in China, and that of Dragon, which has extensive experience in international regulatory affairs and international market development for pharmaceutical products from China.

Cost and Revenue Synergies. Potential cost synergies, after the acquisition, include costs saved by combining any duplicative sales teams and offices of Oriental Wave and Dragon which may cover the same market area in China and by combining the management of the manufacturing operations, marketing, human resources, supply chain management and finance operations of Dragon and Oriental Wave's subsidiaries in China. We believe that the combination of the businesses of Oriental Wave and Dragon will enable the combined company to achieve certain cost synergies principally by integrating our respective corporate functions and business operations. We believe that Oriental Wave's comprehensive sales network in China and Dragon's extensive licensee networks for the international market outside of China will enable cross-selling of each other's products to achieve higher sales than both companies could achieve on a stand-alone basis.

Capturing Multiple Growth Opportunities. A growing trend in the generic drug and bulk pharmaceutical chemical sectors of the pharmaceutical industry is the relocation of the production base for these sectors from developed countries such as Europe to developing countries such as China and India. We believe this trend is occurring to leverage the low cost environment and other specific location advantages offered in these countries. We believe that the acquisition of Oriental Wave will enable the combined company to compete more effectively and capture more global business opportunities as a result of this trend.

The foregoing discussion of information and factors considered by Dragon's Board is not intended to be exhaustive, but is believed to include the material factors considered by it. The Dragon Board did not assign relative or specific weights to the individual factors, and the individual directors may have given varying weight to different factors.

Recommendation of the Board of Directors

The President and CEO of Dragon and his management team submitted various presentation packages to the Board of Directors regarding the proposed acquisition of Oriental Wave, including a strategic assessment of Dragon, a discussion of the strategic advantages of acquiring Oriental Wave, an overview of the industry sectors Oriental Wave was active in, a summary of the results of the business and legal due diligence conducted on Oriental Wave, a summary of the terms of the Share Purchase Agreement, management's financial analysis related to the proposed acquisition and a business plan for the combined company. In recommending that Dragon proceed with the acquisition, management also considered and discussed with the Board the factors discussed above under "Reasons for the Acquisition."

Based on the information provided by our management regarding the proposed acquisition of Oriental Wave, Dragon's individual Board members spent time reviewing and considering relevant data and documents and

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discussing matters arising out of their review. In the course of their review of the acquisition proposal, the Board of Directors on a number of occasions requested and received from management additional information on, and analysis of, the matters covered by management's presentations. Certain members of the Board also had discussions with representatives of Oriental Wave to review certain of these matters. On May 18, 2004, a meeting of our board of directors was held to receive the report of our management on the final status of negotiations over the terms of the proposed acquisition, which included the recommendation to proceed with the acquisition.

The Board of Directors has determined that the acquisition of Oriental Wave is in the best interests of Dragon and is fair to our shareholders. Therefore the Board has approved the acquisition and recommends that shareholders of Dragon vote FOR approval of the issuance of our shares to complete the acquisition of Oriental Wave (Proposal 1) and FOR the amendment to our Certificate of Incorporation to increase the number of our authorized shares necessary to complete the acquisition in a single closing (Proposal 2).

The acquisition was negotiated at arm's length and none of the Board of Directors nor any senior executives has any connection to Oriental Wave. We are not aware of any additional or unique compensation that will be received by any officer, director, major shareholder or affiliate of Dragon or Oriental Wave in connection with the acquisition.

The Board meeting held on May 18, 2004 at which the acquisition was approved was attended by four (Drs. Wick, Sun, Liu and Cai) of the five members of our Board of Directors. All four directors who attended the meeting voted in favor of the Board resolution approving the acquisition.

Certain of our directors, Messrs. Cai, Liu, Sun and Wick, have advised us that they and certain of their affiliates or other related parties intend to vote FOR the resolution to approve the acquisition and FOR the proposal to increase our authorized capital. We have been advised that this group owns or controls, in the aggregate, 8,192,500 shares of our common stock or approximately 39.8% of our outstanding shares. After the closing of the first stage of the acquisition, we will hold a controlling interest in Oriental Wave and the current Oriental Wave shareholders will hold a sufficient number of our outstanding shares to be able to guarantee shareholder approval of the increase of our authorized shares necessary to complete the acquisition.

Tax Treatment

In the opinion of Bartel Eng & Schroder, the following is the description of the United States material federal income tax consequences to Dragon and our shareholders as a result of the acquisition of Oriental Wave. It has been represented to our management that all of the shareholders of Oriental Wave are non-resident foreign shareholders, that no such shareholder has a connection to the United States and that all activities of Oriental Wave are outside the United States. Accordingly, we make no representations regarding United States tax consequences to such foreign shareholders who will receive shares of common stock of Dragon in exchange for their shares in Oriental Wave. Such foreign shareholders are urged to consult their own tax advisors with respect to foreign taxes applicable to them.

The issuance of common stock in connection with the acquisition of Oriental Wave will not cause a taxable event for either Dragon or our shareholders. When an acquiring domestic corporation, such as Dragon, issues its stock to the shareholders of a target foreign corporation, such as Oriental Wave, Section 1032 of the Internal Revenue Code of 1986, as amended, protects the domestic corporation from recognizing any gain.

Accounting Treatment

We must account for the acquisition of Oriental Wave as a reverse take-over transaction, as the shareholders of Oriental Wave will own the majority of the shares of the combined company after the transaction is completed, using the purchase method of accounting for financial reporting purposes under accounting principles generally accepted in the United States of America. Under this basis of accounting, Oriental Wave has been identified as the acquirer and, accordingly, the combined company is considered to be a continuation of the operations of Oriental Wave and include the accounts of Dragon from the acquisition date. The purchase price will

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be allocated to Dragon's assets acquired and liabilities assumed based upon their estimated fair values as of the completion of the acquisition. Deferred tax assets and liabilities will be adjusted for the difference between the tax basis of the assets and liabilities and their estimated values. The excess, if any, of the total acquisition cost over the sum of the assigned fair values of the tangible and identifiable intangible assets acquired, less liabilities assumed will be recorded as goodwill and periodically evaluated for impairment. Our financial statements issued after completion of the acquisition will reflect these values. Historical data are not restated retroactively to reflect the combined historical financial position or results of operations of Dragon and Oriental Wave.

Interested Parties in the Transaction

The Share Purchase Agreement was negotiated between Dragon and the shareholders of Oriental Wave at arm's length. None of our directors or executive officers has an interest in Oriental Wave. We are not aware of any additional or unique compensation that will be received by any officer, director, major shareholder or affiliate of Dragon or Oriental Wave in connection with the acquisition.

Resales of Dragon Common Stock

Currently, our outstanding shares of the common stock are quoted on the OTC Bulletin Board under the symbol DRUG . In addition, our shares of common stock are listed on the Toronto Stock Exchange under the symbol DDD and are quoted on the Berlin-Bremen Exchange, the Frankfurt Exchange, and the XETRA Exchange under the symbol DRP . The shares of Dragon common stock issued to complete the acquisition of Oriental Wave will be freely tradable and transferable by the shareholders of Oriental Wave subject to certain limitations described in the following paragraphs.

Shares of our common stock held by any Oriental Wave shareholder who may be deemed to be an affiliate of Dragon or Oriental Wave for purposes of Rule 145 under the Securities Act of 1933 (Securities Act), will be subject to certain trading restrictions. Each director and executive officer of Oriental Wave is deemed to be an affiliate for purposes of Rule 145. Further, all shares of our common stock subsequently acquired by an affiliate of Dragon will be subject to similar resale restrictions (under Rule 144 of the Securities and Exchange Commission), regardless of how or when those shares are acquired. A legend will be placed on all certificates evidencing shares issued to affiliates, setting forth the above-described restrictions on transfer and appropriate stop-transfer instructions will be given to the transfer agent for our common stock with respect to such certificates. In addition, the shares of common stock to be issued to the shareholders of Oriental Wave pursuant to the Share Purchase Agreement may be subject to escrow conditions imposed in accordance with the requirements of the Toronto Stock Exchange, and will be subject to a four month hold period in Canada from the date of issue.

Our common stock is registered under Section 12 of the Securities Exchange Act of 1934, as amended (the Exchange Act) and, as a result, Dragon is required to file periodic and other reports with the Securities and Exchange Commission pursuant to Section 13 of the Exchange Act. Each director or executive officer of Oriental Wave who becomes a director or executive officer of Dragon will be required to file individual ownership reports with the Securities and Exchange Commission, pursuant to Section 16 of the Exchange Act, with regard to his or her personal holdings (including purchases and sales) of shares of our common stock, so long as he or she remains a director or executive officer of Dragon.

The Share Purchase Agreement

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The following is a summary of what we believe are the material provisions of the Share Purchase Agreement which is attached as Annex A to this proxy statement/prospectus and is incorporated herein by reference. The rights and obligations of the parties to this agreement, Dragon, the shareholders of Oriental Wave and Oriental Wave, are governed by the terms and conditions of the Share Purchase Agreement and not by this summary or any other information contained in this proxy statement/prospectus. We urge our shareholders to read the Share Purchase Agreement carefully and in its entirety as well as this proxy statement/prospectus before making any decisions regarding the proposals.

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Table of Contents**General**

The Share Purchase Agreement is dated effective June 11, 2004 and is among Dragon, Oriental Wave, and the shareholders of Oriental Wave (Mr. Yanlin Han, Mr. Zhanguo Weng and Ms. Xuemei Liu), and is supplemented by a letter agreement dated June 18, 2004. Under the Share Purchase Agreement, Dragon will purchase all of the issued and outstanding shares of Oriental Wave in consideration for the issuance of shares of common stock of Dragon, with the result that Oriental Wave will become our wholly-owned subsidiary and Mr. Han, Mr. Weng and Ms. Liu will become shareholders of Dragon.

Consideration to be Received by Shareholders of Oriental Wave

On the closing of the acquisition, we will issue to the Oriental Wave shareholders that number of Dragon common shares which is equal to 68.35% of our issued shares of common stock after the issue of such shares (the Dragon Closing Shares). In addition to the Dragon Closing Shares, we will also issue to the shareholders of Oriental Wave that number of our shares of common stock (the Additional Dragon Closing Shares) such that the shareholders of Oriental Wave will continue to own 68.35% of our common stock if all of our outstanding options and warrants to issue our common stock are fully exercised. The 68.35% ownership percentage is fixed and is not subject to change as a result of any fluctuation in the price of Dragon's stock. The amount of the consideration to be paid, the Dragon Shares and Additional Shares, was not determined on the basis of on the trading price of Dragon's shares of common stock but instead was based on an agreed percentage of Dragon's outstanding shares that will be held by the current Oriental Wave shareholders after completion of the acquisition. As at August 19, 2004, Dragon has 20,582,000 shares of common stock outstanding and obligations to issue 2,046,500 shares of common stock upon the exercise of convertible securities. Based on our outstanding shares and shares reserved for future issuance as at August 19, 2004, 44,448,016 Dragon Closing Shares and 4,419,535 Dragon Common Shares would be issued to the shareholders of Oriental Wave in exchange for all their shares in Oriental Wave. As described below under Escrow of Shares, certain of the Dragon Closing Shares and the Additional Dragon Closing Shares will be escrowed. The shares of our common stock issued to the Oriental Wave shareholders will be allocated among them in proportion to their ownership of the Oriental Wave shares as follows: 70% to Mr. Yanlin Han, 20% to Mr. Zhanguo Weng and 10% to Ms. Xuemei Liu.

If the issuance of shares in connection with the acquisition described in Proposal 1 and the amendment of our Certificate of Incorporation to increase our authorized shares described in Proposal 2 are both approved by shareholders, then we will complete the purchase of 100% of the outstanding shares of Oriental Wave in a single closing. If the acquisition is approved by shareholders but the amendment of our Certificate of Incorporation to increase our authorized shares does not receive the required vote (this matter requires a majority of all outstanding shares to be voted in favor of the proposal rather than, as is the case with Proposal 1, a majority of those present) we have agreed with the shareholders of Oriental Wave to complete the acquisition of Oriental Wave in two stages. Based on our outstanding shares and shares reserved for issuance as at August 19, 2004, in the first stage we would acquire 60% of the outstanding shares of Oriental Wave in exchange for approximately 27.37 million shares of common stock of Dragon. This number may increase if any of our outstanding options or warrants expire before closing as it is our intention to issue to the Oriental Wave shareholders the maximum number of shares we can issue at the first closing. Following this first stage of the acquisition, Dragon's shares of common stock will be held by, or reserved for issue, as follows:

Holder	Number of Shares Outstanding	Number of Shares Reserved for Issue ⁽¹⁾	Total Shares Outstanding (fully diluted)	Percentage of Issued Shares	
				Basic ⁽²⁾	Fully- Diluted ⁽³⁾
Current shareholders of Dragon	20,582,000	2,046,500	22,628,500	42.92%	45.26%
Current Shareholders of Oriental Wave Dragon Closing Shares ⁽⁴⁾	27,371,500		27,371,500	57.08%	54.74%
Additional Dragon Closing Shares					

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	27,371,500 ⁽⁵⁾	27,371,500	57.08%	54.74%
Totals	47,953,500	2,046,500	50,000,000	100.00%

⁽¹⁾ Options and warrants to purchase shares of common stock of Dragon.

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- (2) Calculated based on 47,953,500 shares outstanding.
- (3) Calculated based on 50,000,000 shares outstanding.
- (4) We and the shareholders of Oriental Wave have agreed that at the first closing we will treat all of the shares issued as Dragon Closing Shares and to only deposit 5.15 million of these shares into escrow. All necessary adjustments to the ratio of Dragon Closing Shares to Additional Dragon Closing Shares and to the number of shares to be deposited into escrow will be made at the second closing.
- (5) These shares will be issued to Mr. Han, 19.16 million shares, Mr. Weng, 5.47 million shares, and Ms. Liu, 2.74 million shares.

Dragon and the shareholders of Oriental Wave may change the number of shares issued and acquired in the first closing, though we will not complete the first closing unless we acquire more than 50% of the outstanding shares of Oriental Wave.

Following the closing of the first stage of the acquisition, we will, as soon as practicable, seek shareholder approval of an amendment to our Certificate of Incorporation to increase our authorized shares. This action may be approved by way of written consent signed by shareholders holding a majority of our outstanding shares with disclosure in compliance with the United States securities laws or considered and voted upon at a future special meeting of shareholders. The shares issued to the current controlling shareholders of Oriental Wave, which will represent more than 50% of our outstanding shares after the closing of the first stage of the acquisition, will be entitled to vote on the proposal by written consent or at any such future special meeting. As a result, the current controlling shareholders of Oriental Wave will hold a sufficient number of our shares to be able to guarantee shareholder approval of the increase of our authorized shares. Once the amendment to our Certificate of Incorporation to increase our authorized shares is approved, we intend to complete the second stage of the acquisition and acquire the remaining 40% minority interest in Oriental Wave held by the current shareholders of Oriental Wave in exchange for the balance of the share consideration payable by us under the Share Purchase Agreement. Following this second closing, Dragon's shares of common stock would be held by, or reserved for issue, as follows:

Holder	Number of Shares Outstanding	Number of Shares Reserved for Issue ⁽¹⁾	Total Shares Outstanding (fully diluted)	Percentage of Issued Shares	
				Basic ⁽²⁾	Fully-Diluted ⁽³⁾
Current shareholders of Dragon	20,582,000	2,046,500	22,628,500	29.64%	31.65%
Current Shareholders of Oriental Wave Dragon Closing Shares	44,448,016		44,448,016	64.00%	62.17%
Additional Dragon Closing Shares ⁽⁴⁾	4,419,535		4,419,535	6.36%	6.18%
	48,867,551 ⁽⁵⁾		48,867,551	70.36%	68.35%
Totals	69,449,551	2,046,500	71,496,051	100.00%	100.00%

(1) Options and warrants to purchase shares of common stock of Dragon.

(2) Calculated based on 69,449,551 shares outstanding.

(3) Calculated based on 71,496,051 shares outstanding.

- (4) These shares are to be deposited into escrow as described below under *Escrow of Shares* . While the shares are in escrow, the shareholders of Oriental Wave have agreed not to vote the Additional Dragon Closing Shares or to accept any dividends or other distributions paid in respect of those shares.
- (5) These shares will be issued to Mr. Han, 34.21 million shares, Mr. Weng, 9.77 million shares, and Ms. Liu, 4.89 million shares.

Escrow of Shares

Upon the closing of the acquisition, 50% of the Dragon Closing Shares and all of the Additional Dragon Closing Shares will be deposited into escrow under an escrow agreement.

The Dragon Closing Shares deposited under the escrow agreement will be released from escrow over a two-year period (40% after the first year and the remaining 60% after the second year), unless a claim is made by Dragon in respect of a breach of a representation or warranty made by the shareholders of Oriental Wave in the Share Purchase Agreement. If Dragon's claim is determined to be valid its remedy will be limited to the return of the Dragon Closing Shares then held in escrow. This limitation will not apply if there was fraud or intentional

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misrepresentation on the part of the Oriental Wave shareholders. The Dragon Closing Shares that are in escrow at the date the claim is made will remain in escrow under the agreement until the escrow agent is directed to release the shares by way of a joint written instruction from Dragon and the Oriental Wave shareholders, an award or decision of an arbitrator or an order of a court of competent jurisdiction in a final determination. The Oriental Wave shareholders will have the right to vote the Dragon Closing Shares held in escrow.

The Additional Dragon Closing Shares will be released from escrow as the Dragon convertible securities are exercised. If any of the Dragon convertible securities expire unexercised or are otherwise cancelled, the corresponding Additional Dragon Closing Shares will be released to Dragon for cancellation. While the Additional Dragon Closing Shares are in escrow, the shareholders of Oriental Wave have agreed not to vote these shares or to accept any dividends or other distributions paid on these shares.

Conduct of Business

Each of Oriental Wave, its shareholders and Dragon have undertaken certain covenants restricting the conduct of the business of Dragon and Oriental Wave between the date of the Share Purchase Agreement and the closing of the acquisition.

Oriental Wave and its shareholders have agreed that, except to the extent permitted in or required by the Share Purchase Agreement or consented to by Dragon, from the effective date of the Share Purchase Agreement to the closing of the acquisition they will

cause Oriental Wave and each subsidiary thereof to conduct its business in the ordinary and normal course of business consistent with past practice,

not make any bonus payments to or increase the compensation or benefits of any director, officer or employee, other than in the usual and ordinary course of business consistent with past practice or pursuant to existing contractual agreements,

cause Oriental Wave and each subsidiary thereof to use all reasonable efforts to maintain and preserve its existing goodwill and business relationships in the ordinary and normal course of business consistent with past practice,

not permit Oriental Wave or any subsidiary thereof to enter into any material agreements, other than in the normal and ordinary course of its business, with any third party other than Dragon,

not permit Oriental Wave or any subsidiary thereof to incur any debt, obligation or guarantee other than in the ordinary and normal course of business consistent with past practice nor permit any material change in the share capital of Oriental Wave or any subsidiary thereof,

not issue any shares or convertible securities in the capital of Oriental Wave or that of a subsidiary,

except for any dividend or distribution that will be concurrently contributed back as paid-in capital, not declare any dividend on, or make other distributions in respect of any outstanding shares (or securities convertible into shares) of Oriental Wave, and

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not make any distribution, payment or repayment to any non-arm's length party or enter into any non-arm's length contracts.

Dragon has agreed that, except to the extent permitted in or required by the Share Purchase Agreement or consented to by the Oriental Wave shareholders, from the date of the Share Purchase Agreement to the closing of the acquisition it will

conduct its business in the ordinary and normal course of business consistent with past practice,

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not make any bonus payments to or increase the compensation or benefits of any director, officer or employee, other than in the usual and ordinary course of business consistent with past practice or pursuant to existing contractual agreements,

use all reasonable efforts to maintain and preserve its existing goodwill and business relationships in the ordinary and normal course of business consistent with past practice,

not enter into any material agreements, other than in the normal and ordinary course of its business, with any third party other than Oriental Wave and Oriental Wave's shareholders,

not incur any debt, obligation or guarantee other than in the ordinary and normal course of business consistent with past practice,

not issue any shares or convertible securities in its capital (other than on the exercise of convertible securities that are currently outstanding),

not declare any dividend on, or make other distributions in respect of its outstanding shares (or securities convertible into shares), and

not make any distribution, payment or repayment to any non-arm's length party or enter into any non-arm's length contracts.

No Solicitation

From the date of the Share Purchase Agreement to the closing of the acquisition, the parties will not, directly or indirectly, solicit, initiate or encourage any expression of interest, proposal or offers from, or negotiate with, or provide information to, facilitate discussions with or otherwise co-operate in any way with, any person (other than each other) relating to the following alternative transactions

the acquisition or disposition of all or any substantial part of the issued or unissued shares of Oriental Wave, Dragon or any of their affiliates, or

any arrangement, amalgamation, merger, sale of assets, take-over bid, reorganization, recapitalization, liquidation or winding-up of, or other business combination or similar transaction involving Oriental Wave, Dragon or any of their affiliates and any other party,

provided, however, that Dragon may respond to a proposal for, and complete, an alternative transaction if the board of directors of Dragon believes in good faith that they have a fiduciary duty to do so on the basis that such a transaction may result in a transaction materially more favorable to Dragon or, if applicable, its shareholders, than the acquisition of Oriental Wave.

The parties have agreed to immediately notify each other, in writing, upon receipt of any expression of interest, proposal or offer from any person relating to any alternative transaction and will forthwith disclose to the other parties all relevant details thereof. None of the Oriental Wave shareholders or Oriental Wave will respond to such expression of interest, proposal or offer (except to decline it) but Dragon may respond as noted above.

Other Covenants and Conditions

Each of the parties has agreed

to use all reasonable commercial efforts to obtain all consent, waivers and approvals of third parties reasonably required by a party to complete its obligations under the Share Purchase Agreement, including all applicable regulatory approvals, required to validly and effectively consummate the transactions contemplated in the Share Purchase Agreement,

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use all reasonable commercial efforts to complete the transactions contemplated in the Share Purchase Agreement, and

from the effective date of the Share Purchase Agreement to the closing of the acquisition, to promptly inform the other parties if they or their subsidiaries enter into any agreement or undertake any conduct permitted to be completed without the consent of the other parties, including hiring any new employee, signing agreements or acquiring assets, if the value of the agreement or annual financial impact is at least \$100,000 in the case of Dragon and \$250,000 in the case of Oriental Wave and its subsidiaries.

The Oriental Wave shareholders and Oriental Wave have agreed

to file any documents required to be filed by them with a stock exchange or other regulatory authority that is necessary to obtain a required regulatory approval,

to supply to Dragon financial statements of Oriental Wave in a form and covering those periods sufficient for Dragon to prepare this proxy statement/prospectus and to meet its filing requirements with applicable securities regulatory authorities and those stock exchanges or quotation systems on which the shares of Dragon are listed,

that the Oriental Wave shareholders will comply with all hold periods and any escrow conditions imposed on them by any regulatory authority in connection with the completion of the acquisition, provided that Dragon will use all reasonable commercial efforts to minimize the conditions imposed on the Oriental Wave shareholders,

that, absent the consent of Dragon, none of them or their subsidiaries will, whether directly or indirectly, either individually or in partnership or in conjunction with any person or persons, firm, association, syndicate, joint venture, partnership, company or corporation as principal, agent, or shareholder or in any other manner whatsoever, purchase or sell any shares of Dragon (including any derivative securities) during the term of the Share Purchase Agreement,

that, from the effective date of the Share Purchase Agreement to the closing of the acquisition, Oriental Wave will not, and will not permit any of its affiliates to, acquire or agree to acquire by amalgamation, arrangement, merger or consolidation with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association of other business organization or division thereof or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the business of Oriental Wave, and

that, from the effective date of the Share Purchase Agreement to the closing of the acquisition, Oriental Wave will not, and will not permit any affiliate of Oriental Wave to, sell, lease, transfer, mortgage, encumber or otherwise dispose of any material asset or cancel, release or assign any material indebtedness or claim, except in the ordinary course of business consistent with past practice.

Dragon has agreed

to use all reasonable commercial efforts to ensure that all of its shares of common stock are, when issued, listed for trading on the Toronto Stock Exchange and on the OTC Bulletin Board,

that, except in the case of a superior alternative transaction, Dragon will not, and will not permit any affiliate of Dragon to, acquire or agree to acquire by amalgamation, arrangement, merger or consolidation with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association of other business organization or division thereof or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the business of Dragon, and

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that Dragon will not, and will not permit any affiliate of Dragon to, sell, lease, transfer, mortgage, encumber or otherwise dispose of any material asset or cancel, release or assign any material indebtedness or claim, except in the case of an alternative transaction or in the ordinary course of business consistent with past practice.

Representations and Warranties

The Share Purchase Agreement contains substantially reciprocal representations and warranties, many of which are qualified by materiality, made by each party to the other. The representations and warranties relate to, among other matters, (a) organization and status, corporate power and capacity, share capital and ownership of subsidiaries, (b) no conflicts of the Share Purchase Agreement with organizational documents, contracts, permits or other documents, (c) required consents to the acquisition, (d) financial matters including financial statements, (e) assets including real property and personal property, (f) intellectual property and information technology matters, (g) absence of certain changes, events or undisclosed interested party transactions, (h) material contracts, (i) labor and other employment matters, (j) tax matters, (k) environmental matters, (l) filings with securities regulatory and other governmental authorities, and (m) compliance with applicable laws and validity of permits.

From the effective date of the Share Purchase Agreement to the closing of the acquisition, each party will promptly notify the other parties of any material change (actual, anticipated, contemplated or threatened, financial or otherwise) in the business, affairs, operations, assets, liabilities (contingent or otherwise) or capital of the party and its subsidiaries, taken as a whole.

Conditions

The obligation of the parties to complete the acquisition is subject to the fulfillment of each of the following conditions

the representations and warranties of the other parties contained in the Share Purchase Agreement being true and correct in all material respects as of the closing of the acquisition or being waived,

all covenants and agreements contained in the Share Purchase Agreement to be performed or complied with by the other parties on or before the closing date being performed or complied with in all material respects or being waived,

the other parties acknowledging the satisfaction of, or waiving the satisfaction of, the conditions to closing for the benefit of those parties, and

the obtaining of all required regulatory approvals and consents, which condition will not be waived by Dragon.

Also, the obligation of Dragon to complete the acquisition is subject to the fulfillment or waiver of each of the following conditions

all share purchase options and any other convertible securities of Oriental Wave being exercised for, or converted into, shares of Oriental Wave or cancelled by the closing of the acquisition and the shares of Oriental Wave held by Mr. Han, Mr. Weng and Ms. Liu representing all of the outstanding shares of Oriental Wave, and

approximately \$2.42 million (RMB 20 million) in loans owed by Shanxi Weiqida to a related party, Shanxi Tongling Pharmaceutical Co., Ltd., being converted into the paid-in capital of Shanxi Weiqida, with the balance of the loan approximately \$2.7 million (RMB 22 million) remaining outstanding on the current terms of such loan. Mr. Han, the Chairman of Oriental Wave, is also the Chairman of the related party.

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In addition, the obligation of the parties to complete the acquisition is subject to the fulfillment or waiver of their receiving all of the certificates, certified copies of resolutions, resolutions, copies of consents, regulatory approvals and letters, executed escrow agreements, legal opinions and other documents and instruments to be delivered by the other parties at the closing of the acquisition as set out in the Share Purchase Agreement.

Closing Matters

Subject to all closing conditions being fulfilled or waived, the closing of the acquisition will take place at the offices of Lang Michener LLP, 1500 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7, at a time and date agreed upon by the parties but in no event later than December 31, 2004.

Termination of Agreement

If the closing of the acquisition has not occurred on or before 5:00 p.m. (Pacific Time) on December 31, 2004 the Share Purchase Agreement will automatically terminate.

The Share Purchase Agreement also may be terminated

at any time with the written consent of each party,

by the Oriental Wave shareholders if they notify Dragon that they do not wish to proceed with the sale of their shares on the basis that there has been a material decrease in the intrinsic value of Dragon as a company, including but not limited to the value available to a proposed acquirer in the goodwill and reputation of Dragon as a public company, or there is any indication of improper trading activity in Dragon's stock. A decrease in Dragon's stock price, in and of itself, is not considered to be a material decrease in the intrinsic value of Dragon as a company, or

by Dragon at any time by notifying the Oriental Wave shareholders that Dragon's board of directors has identified and decided to pursue an alternative transaction.

If the Share Purchase Agreement is terminated by the Oriental Wave shareholders or Dragon as described above, Dragon will reimburse Oriental Wave for the reasonable expenses actually incurred by Oriental Wave in connection with all matters relating to the acquisition up to an amount not to exceed \$500,000, including, without limitation, fees and disbursements of counsel and auditors, consultants, and other financial advisors and travel and communication expenses.

Comparison Of Shareholder Rights

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Dragon is incorporated under and subject to the provisions of the Florida Business Corporation Act (FBCA), its Certificate of Incorporation and Bylaws. Oriental Wave is incorporated under and subject to the provisions of the British Virgin Islands International Business Companies Ordinance, 1984 (BVI IBC), its Memorandum of Association and Articles of Association. Under the BVI IBC, the owners of Oriental Wave shares are referred to as members but for purposes of this discussion we will refer to the share owners as shareholders. Upon consummation of the proposed acquisition of Oriental Wave, the shareholders of Oriental Wave will become shareholders of Dragon. Although we do not believe that the rights and terms associated with the shares to be issued to the Oriental Wave shareholders are more or less advantageous than the Oriental Wave shares currently held by such shareholders, there are differences which are described below.

The following is a general comparison of similarities and material differences between the rights of Dragon and Oriental Wave shareholders under their respective governing law and charter documents. This discussion is only a summary of selected provisions and is not a complete description of all of the similarities and differences, and is qualified in its entirety by reference to the FBCA, the full text of the Dragon Certificate of Incorporation and Bylaws, the BVI IBC, the Oriental Wave Memorandum of Association and the Articles of Association.

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As a public company, Dragon is also subject to the periodic and other reporting requirements under the Exchange Act. Dragon is also subject to the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the Securities and Exchange Commission pursuant to such Act.

Capital Structure

Dragon. Dragon has 50,000,000 authorized shares of common stock, \$.001 par value. The shares of common stock do not carry cumulative voting rights or pre-emptive rights. Under the FBCA, fractional shares may be issued and shares may be issued for any consideration deemed appropriate by the board of directors. Any increases in Dragon's authorized capital require shareholder and director approval of an amendment to the Certificate of Incorporation.

Oriental Wave. Oriental Wave has 50,000 authorized shares, \$1.00 par value. The shares do not carry cumulative voting rights or pre-emptive rights. Under the BVI IBC, fractional shares may be issued and shares may be issued for such amount as may be determined by the board of directors except in the case of shares with par value the consideration may not be less than par value. Under the Oriental Wave Memorandum of Association, any changes to its authorized capital, including the authorization of a class of preferred stock, an increase in authorized capital as well as other capital changes, may be made by a resolution of the directors without shareholder approval.

Call of Meeting of Shareholders

Dragon. The Dragon Bylaws provide that an annual meeting of shareholders be held on June 30 of each year or at such time and place designated by the board of directors. A special meeting of shareholders may be called at any time by the board of directors, president or one or more shareholders holding shares in the aggregate of not less than 10% of the votes entitled to be cast at that special meeting.

Oriental Wave. The Oriental Wave Articles of Association provide that meetings of shareholders may be called at any time by directors, or upon the written request of shareholders holding more than 50% of the outstanding voting shares of Oriental Wave.

Notice and Quorum Requirements

Dragon. The Dragon Bylaws provide that a written notice setting forth the place, day and hour of the meeting must be delivered to the shareholders entitled to vote at such meeting not less than three and no more than 30 days before the meeting. However, objections to lack of notice will be deemed to be waived by the shareholder's attendance at the meeting. The Dragon Bylaws provide that the presence in person or by proxy of the holders of a majority of the outstanding shares entitled to vote at a meeting of shareholders will constitute a quorum for the transaction of business.

Oriental Wave. The Oriental Wave Articles of Association provide that a seven days notice setting forth the place, the day and time of meeting, and the general nature of business to be conducted at the meeting must be given to the shareholders entitled to vote at such meeting. However, a meeting will be deemed to have been validly held, if notice of the meeting is waived by at least 60% of the shareholders entitled to vote at the meeting. The Oriental Wave Articles of Association provide that the presence in person or by proxy of the holders of at least one-third of the

shares of each class or series of shares entitled to vote as a class or series and the same proportion of the votes of the remaining shares entitled to vote will constitute quorum for the transaction of business.

Voting Rights of Shareholder

Dragon. Under the FBCA each shareholder of record is entitled to vote the shares registered in its name. However, shares of public companies are frequently held in nominee names, including clearing agencies, broker-dealers or banks, and voted through a series of proxies. The Dragon Bylaws provide that each outstanding share is entitled to one vote on each matter submitted to a vote of a meeting of shareholders. Proposed actions are approved by the affirmative vote of a majority of the outstanding shares represented at the meeting and entitled to vote on the matter unless otherwise provided by law.

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Oriental Wave. Under the Oriental Wave Articles of Association, shares may be issued as registered shares or as bearer shares. Bearer shares are similar to shares held in nominee name, however, the person physically possessing the bearer shares is considered to be the shareholder of the company and is entitled to vote the shares at meetings of shareholders. Every holder of a voting share present in person or by proxy at a shareholders meeting has one vote for every voting share held by such holder. Resolutions are approved by a simple majority of those present at the meeting in person or by proxy and entitled to vote.

Action by Written Consent

Dragon. The Dragon Bylaws provide that any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting, without prior notice and without vote if a written consent is signed by the holders of outstanding shares having not less than the minimum number of votes necessary to authorize such action at a meeting at which all shares entitled to vote were present and voted.

Oriental Wave. The Oriental Wave Articles of Association provide that shareholders may be taken without a meeting of shareholders if a written consent is given by a majority of the votes of shareholders entitled to vote.

Amendments to Charter Documents

Dragon. Any amendments to the Dragon Certificate of Incorporation require a recommendation by the board of directors, and approval by (1) an affirmative vote of a majority of the outstanding shares entitled to vote represented at a duly held meeting at which a quorum is present, or (2) a written consent of a majority of the outstanding shares entitled to vote thereon, unless the vote of a greater amount of shares is required by law, and in that case approved by the vote or written consent of the greater amount.

Subject to FBCA, the Dragon Bylaws may be amended or repealed by the affirmative vote of a majority of the outstanding shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of the holders of a majority of the outstanding shares entitled to vote thereon. Subject to the rights of shareholders to amend the Bylaws, the Dragon Bylaws provide that the Bylaws may also be adopted, amended or repealed by a majority vote of the board of directors.

Oriental Wave. The Oriental Wave Articles of Association provide that amendments to its Memorandum of Association and Articles of Association be approved by a resolution of shareholders (approved by a simple majority of the votes of the shares present at a duly convened and constituted meeting and entitled to vote or by written consent of a majority of shareholders entitled to vote) or directors (approved by a simple majority of directors present at a duly convened and constituted meeting who voted or by written consent of a majority of directors).

Directors and Removal of Directors

Dragon. The Dragon Certificate of Incorporation provides that the number of directors be at least one (1) and no more than five. Directors are elected at any shareholder meeting duly called and held for such purpose at which a quorum is present, by a plurality of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote. Vacancies on the board of directors are filled by either (1) a

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majority vote of the remaining directors, although less than a quorum, or (2) an affirmative vote of a majority of the outstanding shares entitled to vote represented at a duly held meeting at which a quorum is present, or by a written consent of the holders of a majority of outstanding shares entitled to vote thereon, until his or her successor is elected at an annual or a special meeting of shareholders. The Dragon Bylaws provide that at a meeting of shareholders expressly called for the purpose of removing directors, directors may be removed, with or without cause, by the holders of a majority of the shares entitled to vote at an election of directors.

Oriental Wave. Under the Oriental Wave Articles of Association the minimum number of directors is one. Directors may be elected either by an affirmative vote of the simple majority of the shareholders or the existing directors. Vacancies on the Oriental Wave board may be filled by either by the shareholders or by the remaining directors. The Oriental Wave Articles of Association provide that directors may be removed by a resolution of directors or by a resolution of shareholders.

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Dividends

Dragon. The Dragon Bylaws provide that its board of directors may declare and pay dividends in cash, property or its own shares, except when it is insolvent or when the payout of such dividend would render it insolvent under the FBCA.

Oriental Wave. The Oriental Wave Articles of Association provide that its directors may declare and pay dividends in money, shares, or other property, but dividends will only be declared and paid out of surplus.

Indemnification of Directors and Executive Officers

Dragon. Florida corporations may indemnify directors, officers and agents against liabilities and expenses incurred in the performance of their duties. The Dragon Certificate of Incorporation and Bylaws do not presently obligate Dragon to indemnify its directors, officers and other agents against liabilities and expenses incurred in the performance of their duties to the maximum extent permitted by Florida law.

Oriental Wave. The BVI IBC expressly grants Oriental Wave the power to indemnify its directors, officers and agents against liabilities and expenses incurred in the performance of their duties. The Oriental Wave Articles of Association obligate Oriental Wave to indemnify its directors, officers and other agents against liabilities and expenses incurred in the performance of their duties.

Inspection of Shareholder List and Books and Records

Dragon. The FBCA allows any shareholder to inspect the shareholder list and the corporation's books and records for a purpose reasonably related to such person's interests as a shareholder.

Oriental Wave. The BVI IBC provides that a shareholder may, for a proper purpose, request to inspect the share register books, records, minutes and consents kept by a corporation and make extracts or copies thereof. However, under the BVI IBC Oriental Wave may refuse such a request if determined by a resolution of directors that it is not in the best interests of the corporation or its shareholders to comply with such request. Upon the corporation's refusal of a request, the shareholder may, before the expiration of a 90 day period after receiving notice of the refusal, apply to a court for an order to allow inspection.

Information About Dragon

Overview

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We are a pharmaceutical and biotechnology company whose business plan is to develop and manufacture pharmaceutical products and market pharmaceutical products in China and internationally. In 1999, we acquired a 75% interest in a drug manufacturing company called Nanjing Huaxin Bio-pharmaceutical Co., Ltd. located in Nanjing City, China. We are using our technology to produce drugs such as Erythropoietin (EPO). Our strategy is to use our biotechnological expertise to produce and market pharmaceutical products primarily in China and developing countries at a competitive cost and enter the market of developed countries with licensees when the patent situation allows it. We acquired the remaining 25% interest in Nanjing Huaxin in January 2002.

Through our wholly owned subsidiary, Allwin Biotrade Inc., we have entered into a series of marketing and license agreements. In general, Allwin Biotrade enters into an exclusive or non-exclusive marketing and license agreement with locally-based pharmaceutical distribution companies to sell, formulate, vial and package our EPO. A locally based pharmaceutical distribution company refers to the type of licensee or company that licenses and distributes Dragon's products in a specifically assigned market area or territory. Dragon generally chooses a licensee that is specialized in distribution of pharmaceutical products with a physical presence in the market area or territory in consideration. In most cases the local pharmaceutical distribution company is responsible for obtaining, at its expense, all registrations or approvals required from applicable regulatory authorities in order to permit the sale of our EPO in the licensed territory. The local pharmaceutical distribution company generally is granted a right of first refusal for the sale of additional biotechnological or pharmaceutical drugs for which we may from time to

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time have right to license or sublicense. The marketing and license agreements range from five to seven years, and are subject to renewals. Currently, Allwin Biotrade has marketing and license agreements covering 134 countries.

Management's Discussion and Analysis of Financial Condition

Summary

Our primary revenues are derived from the sale of EPO in and outside of China. We sell our EPO outside of China through marketing and license agreements that cover a number of countries. Before selling our EPO in those countries, we must obtain all required regulatory approvals. The regulatory applications are filed by our local distributor. The time of approval will vary from country to country.

Sales of EPO in China increased during the six months ended June 30, 2004 as compared to the six months ended June 30, 2003. During the first part of 2003, we revised our sales compensation structure, but unfortunately, that revised structure did not provide enough incentives to drive sales of our products. During the latter part of 2003, we revised our compensation structure to make it more commission based, which led to an increase in sales. Sales of EPO outside of China decreased during the six months ended June 30, 2004. We had greater EPO sales during the six months ended June 30, 2003 outside of China because we sold EPO at a lower price due to the anticipated expiration of the shelf life of certain of our inventory. Although this had the effect of increasing sales during the six months ended June 30, 2004, the price reduction adversely affected our profit margin.

Sales of EPO during the year ended December 31, 2003 substantially decreased from the prior year. Sales during the year ended December 31, 2002 included a one-time bulk sale of EPO for research purposes in the amount of \$3,700,000. No similar sale occurred during 2003. As discussed above, sales outside of China increased during the year ended December 31, 2003 as a result of the reduction in selling price for our product to reduce our inventory and make our EPO more affordable to more customers and hence increase the sales volume. However the reduced selling price had an adverse effect on profit margin. Sales of EPO during the year ended December 31, 2003 decreased from the prior year primarily related to the bulk sale of EPO in 2002. The decrease in sales can be also attributed to in part to our competitors reducing their price for their products, the SARS epidemic adversely affecting a patient's ability and willingness to seek purchases of our products and the reorganization of our sales force compensation structure which adversely affected our sales.

Net loss for the six months ended June 30, 2004 and June 30, 2003 was \$637,427 and \$970,452, respectively. Net loss for the year ended December 31, 2003 and December 31, 2002 was \$1,994,734 and \$5,250,946, respectively. Net loss for the six months ended June 30, 2004 decreased from the same period of the prior year primarily due to increased sales of EPO, an increase in gross profit and a reduction in general and administrative expenses consisting primarily of the shutting down of certain offices in China and Hong Kong, and the reduction of salary expenses. Net loss for the year ended December 31, 2003 decreased from the prior year primarily due to an increase in the gross profit margin, and a decrease in general and administrative expenses consisting of a reduction of rent due to the shutting down of certain offices and reduction in salary expenses. In addition, we wrote-off \$3,290,000 due from a related party and incurred expenses of \$2,100,000 related to the development of insulin, C-CSF and rHTPO drugs. We did not incur similar expenses in 2003.

Until we can increase our sales, we will continue to incur losses. At June 30, 2004, we had working capital of \$4,414,102 and we have no major capital commitments in the near term. We will finance our operations primarily through EPO sales supplemented with working capital. We believe that we have sufficient working capital to meet our needs for the next 12 months.

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Results of Operations for the Six Months ended June 30, 2004 as compare to the Six Months ended June 30, 2003

Sales. Sales are generated from the sale of EPO in China by our subsidiary, Nanjing Huaxin, and throughout the developing world by our subsidiary, Allwin Biotrade. Sales for the six-month period ended June 30, 2004 were \$1,786,415 compared to \$1,672,009 for the six-month period ended June 30, 2003. Sales in and outside of China were \$1,359,515 and \$426,900, respectively, during the six-month period ended June 30, 2004. Sales during the six-month period ended June 30, 2003 were \$1,031,242 in China and \$640,767 outside of China. Sales in

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China increased during the six-month period ended June 30, 2004 due to our implementing a more commission-based sales compensation plan during the latter part of the year ended December 31, 2003. During the first part of the six months ended June 30, 2003, our compensation structure was more salary-based which did not provide sufficient incentives to our sales force. During the six months ended June 30, 2004, sales outside of China decreased during the same period of the prior year. During the six months ended June 30, 2003, because the shelf-life of certain of our EPO product inventory was about to expire, we decreased the price of this product in order to encourage sales. Although sales increase during the six months ended June 30, 2003, the price reduction reduced our profit margin.

Cost of sales for the six-months ended June 30, 2004 of \$441,497 is attributed to the production costs of our pharmaceutical products. The cost of sales for the six-month period ended June 30, 2003 was \$528,269. The gross profit margin was 75% for the six-month period ended June 30, 2004 and 68% for the six-month period ended June 30, 2003. The lower profit margin during the six month period ended June 30, 2003 reflects price reductions in sales price for certain of our products that we were required to sell due the anticipated expiration dates of such products.

Interest income is related primarily to interest earned on cash received from the private placement of common stock during the third quarter of 2001 and cash from operations. Interest and other income for the six-month period ended June 30, 2004 was \$26,189 compared to \$16,819 for the three-month period ended March 31, 2003.

Expenses. Total operating expenses for the six-month period ended June 30, 2004 were \$2,008,535. The major expenses incurred in the six months of 2004 were \$628,330 in selling expenses representing 31% of total expenses. Significant operating expenses for the six-month period ended June 30, 2004 included rent of \$168,101, legal fees of \$38,718, salaries and benefits of \$390,471, travel costs of \$83,883, insurance of \$23,904, development expenses of \$152,007 and a bad debts provision of \$20,816. Other significant expenses for the first six months include the depreciation of fixed assets and amortization of license and permit of \$358,854.

Comparatively, total operating expenses for the six-month period ended June 30, 2003 were \$2,131,011. The major expenses incurred in the first six months of 2003 were selling expenses of \$793,339 representing 37% of total expenses. Significant operating expenses for the six-month period ended June 30, 2003 included rent of \$212,111, salaries and benefits of \$389,978, \$100,393 in travel costs, insurance of \$37,708 and a bad debt provision of \$41,412. Management fees of \$40,000 were paid to a director for services during the first six months of 2003. No similar payment was made for the six months ended June 30, 2004. Other significant expenses for the first six months of 2003 include the depreciation of fixed assets and amortization of license and permit and land-use rights of \$369,195.

Overall, expenditures have decreased during the six months ended June 30, 2004 as compared for the six months ended June 30, 2003. Selling expenses decreased as a result of sales staff reductions and implementation of a commission-based compensation structure. Other reductions occurred in administrative salaries as our personnel levels have decreased as we streamlined operations, rent through the closure of our Beijing and Hong Kong representative offices and diligently pursued cutting costs in all areas where practical. In addition, during the six months ended June 30, 2003 we incurred fees for management services to related parties. No management fees were paid to directors for services during the first six months of 2004. This reduction in loss for the six months ended June 30, 2004, was partially offset by the increase in research and development fees of \$152,007 related to our proposed EPO product to be offered in Europe.

Net and Comprehensive Loss. We had a net loss and a comprehensive loss of \$637,427 for the six months period ending June 30, 2004. Our net and comprehensive loss for the six months period ended June 30, 2003 was \$970,452.

Basic and Diluted Net Loss Per Share. Our 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 six-month period ended June 30, 2004. The loss per share for the six-month period ended June 30, 2004

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was \$0.03 compared to a loss of \$0.05 per share for the six-month period ended June 30, 2003. Common stock issuable upon the exercise of common stock

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options and common stock warrants have been excluded from the net loss per share calculations as their inclusion would be anti-dilutive.

Results of Operations for the Fiscal Years Ended December 31, 2003 and 2002

Sales. Sales were derived primarily from the sale of EPO. Sales for the year ended December 31, 2003 were \$3,648,149 compared to sales of \$7,362,248 for the year ended December 31, 2002. Sales in and outside of China were \$2,258,747 and \$1,389,402 respectively during the year ended December 31, 2003 compared to \$3,002,898 and \$4,359,350, respectively during the year ended December 31, 2002. Sales during 2002 outside of China included delivery of a \$3.7 million order to one customer used for new drug research and development. No similar sale occurred in 2003. Sales inside China decreased during the year ended December 31, 2003 from the prior year. We believe that the implementation of a new sales compensation structure adversely affected our sales during the year 2003. That sales compensation structure was terminated during the latter part of 2003.

Cost of sales for the year ended December 31, 2003 was \$1,184,896 compared to \$978,637 for the year ended December 31, 2002. The cost of sales is attributed to the production costs of our pharmaceutical products. The gross profit margin was 68% for the year ended December 31, 2003 and 87% for the year ended December 31, 2002. The gross profit margin for the year ended December 31, 2002 was higher than the year ended December 31, 2003 primarily due to the large profit margin attributed to the one time bulk sale of EPO for new drug research and development. In addition, the profit margin decreased during the year ended December 31, 2003 due to our price reduction of certain of our products due their anticipated expiration date.

During the year ended December 31, 2003, we had interest and other income of \$138,802. Interest and other income for the year ended December 31, 2002, was \$146,989. Interest income is related primarily to interest earned on cash received from sales and the private placements of common stock during the third quarter of 2001.

Expenses. Total expenses for the year ended December 31, 2003 were \$4,552,789. The major expenses for the year ended December 31, 2003 were selling expenses of \$1,527,672 representing 34% of total expenses. The remaining major expense items were EPO development costs of \$206,178 and administrative expenses, including office and miscellaneous expenses of \$105,792, legal and auditing of \$159,094, rent of \$377,134, travel of \$224,072 and salaries and benefits of \$809,266. During 2003, we closed our representative offices in Hong Kong and Beijing. In addition, we reduced our administrative staff in our Vancouver, British Columbia office. Finally, during the year ended December 31, 2003, we terminated fees paid to certain directors who were previously providing consulting services.

Other significant expenses for the year ended December 31, 2003 included depreciation of fixed assets and amortization of license and permit of \$743,080, provision for doubtful accounts of \$29,450 and new market and EPO development expenses of \$216,560.

Total expenses for the year ended December 31, 2002, were \$8,364,643. The major expenses for the year ended December 31, 2002 were \$2,100,000 paid for the development of insulin and G-CSF and selling expenses of \$2,094,820, each representing 25% of total expenses. The remaining major expense items were represented by administrative expenses and included office and miscellaneous expenses of \$213,657, legal and auditing of \$156,646, consulting fees of \$533,270, rent of \$394,004, travel of \$456,427 and salaries and benefits of \$587,515. Management fees of \$247,968 included \$192,500 paid to two directors for services during the year ended December 31, 2002.

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Other significant expenses for the year ended December 31, 2002 included depreciation of fixed assets and amortization of license and permit of \$736,361, provision for doubtful accounts of \$216,709, new market and EPO development of \$200,109, interest expense of \$70,944, stock-based compensation of \$18,760 and the write down of \$3,289,900 of an amount owing from an affiliate control by Longbin Liu, one our directors, related to the Hepatitis B Vaccine project.

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Net and Comprehensive Loss. We incurred an operating loss for the year ended December 31, 2003 of \$2,089,536 compared to operating income of \$118,968 for the year ended December 31, 2002. We had net losses of \$1,994,734 and \$5,250,946, respectively for the years ended December 31, 2003 and 2002.

Basic and Diluted Net Loss Per Share. Our net loss per share has been computed by dividing the net loss for the period by the weighted average number of shares outstanding during the year 2003. The loss per share for the years ended December 31, 2003 and 2002 were \$0.10 and \$0.26. 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

We are a pharmaceutical and biotechnology company that manufactures and markets pharmaceutical products in China through our 100% equity interest in Nanjing Huaxin. Previously, we raised funds through equity financings to fund our operations and to provide working capital. We may finance future operations through additional equity financings.

As of June 30, 2004, we had \$2,608,594 in cash available. This cash, the \$1,407,671 in accounts receivable and anticipated sales will be used to fund ongoing operations and research and development. Working capital was \$4,414,102 at June 30, 2004. We have no long term liabilities.

During the six-months ended June 30, 2004, we incurred losses of \$637,427 and will continue to incur losses until sales of our products increase. We will continue to fund our operations through sales, and any deficit will be supplemented by our working capital.

Dragon's Primary Products

Erythropoietin or EPO. Our primary product is EPO, a glycoprotein that stimulates and regulates the rate of formation of red blood cells. In adult humans, EPO is produced by the kidneys and acts on precursor cells to stimulate cell proliferation and differentiation into mature red blood cells. Kidney disease and chemotherapy or radiation therapy for treating cancer may impair the body's ability to produce EPO and, in turn, reduce the level of red blood cells to less than one-half that of healthy humans. The shortage of red blood cells leads to insufficient delivery of oxygen throughout the body. The result is anemia, which symptoms include fatigue and weakness.

One of the treatments for anemia is to provide EPO protein. This treatment is administered through dialysis tubing or by injection approximately three times per week. EPO is most commonly administered to people with chronic renal failure, HIV patients being treated with anti-viral drugs, and cancer patients on chemo or radiation therapy. The treatment is less dangerous and generates fewer adverse side effects than alternative treatments that include blood transfusions and androgen therapy. However, side effects of EPO may include hypertension, headaches, shortness of breath, diarrhea, rapid heart rate and nausea.

While EPO has been tested to be effective in treating anemia and had world-wide sales of over \$9 billion in 2003, there are other drugs and treatments currently that exist or are in development that can treat anemia. These alternative drugs or treatments could be proven more effective,

less expensive or preferable to customers than EPO. The inability of EPO to compare favorably to these alternative drugs could have an adverse affect on our business.

Slow-Release EPO. In April 2001, we entered into an agreement related to the development of a slow-release formulation for EPO with Transworld Pharmaceuticals Corporation, Inc., or Transworld Pharmaceuticals, and Toray Trading Corp, or Toray, an affiliate of Renapharm Corporation, or Renapharm.

The agreement provides us with sole world-wide manufacturing rights as well as exclusive marketing rights to Asia, including China, Japan, Korea, and Southeast Asia. Transworld Pharmaceuticals, an international distributor of blood related products and biotechnology drugs and our licensee for EPO in a large number of countries, has exclusive marketing rights to all markets outside Asia. We will also be responsible, at our expense, for obtaining all regulatory approvals needed in order to permit the manufacture and sale of a product in the agreed market area.

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The agreement has a term of 10 years and provides Transworld pharmaceuticals and Toray with royalties equal to 5% of our net sales in China and 7% of net sales elsewhere, subject to adjustment each December 31 as agreed by the parties.

Our partners are conducting a pilot clinical trial with 101 patients at the University Hospital, Uppsala University in Sweden, assessed the monthly administration of EPO in this slow release formulation compared to the four times per week administration of conventional EPO. The total dose of each form of EPO was identical. The results of the study showed that monthly administration of the slow release formulation had the same therapeutic effect as four times per week conventional EPO with the added advantage of requiring less frequent injections. Although clinical trial results to date indicated that EPO in slow release formulation initially shows the same therapeutic effect as conventional EPO, such results may not be indicative of definitive results upon completion of all clinical trials. We have contributed EPO bulk material produced by our subsidiary, Nanjing Huaxin Bio-Pharmaceutical Co., Ltd., for use in the trials.

The potential market for sustained release or long-lasting EPO is in the treatment of anemia in patients with kidney failure and cancer patients undergoing chemotherapy.

Before the expiration in late 2004 of the EPO gene patent, generic forms of EPO may only be sold in non-patent covered markets outside North America, the European Union, Japan, Australia, and New Zealand. Given that our slow-release formulation incorporates our generic EPO, initial sales will focus on markets in the developing world that do not extend patent protection to the EPO gene patent holder. After 2004, we expect that our slow-release formulation will be eligible for marketing world-wide, excluding North America.

We plan to proceed with preclinical studies following which we will file a submission seeking permission to begin clinical trials in China. Three pilot batches have been manufactured using EPO bulk material from Nanjing Huaxin and are now undergoing stability testing. The formulation will be put through a full development process if certain criteria are met. According to our agreement, each partner will participate in the final development of the formulation. Dr. Bo Danielson MD, PhD, Managing Director of Renapharm and developer of this slow-release formulation, will serve as lead clinical and technical advisor to the project. Dr. Danielson is recognized as a world expert on EPO, having participated in over 75 published clinical studies involving EPO.

Granulocyte-Colony Stimulating Factor or G-CSF. G-CSF stimulates the bone marrow to produce neutrophils, or leukocytes, a type of white blood cell that helps the body fight infection and disease. G-CSF is a complementary product to EPO. Through our wholly-owned subsidiary, Allwin Biotrade, Inc., we have entered into an agreement with Jiangsu Wuzhong Industry Co. Ltd., or Wuzhong, and Suzhou Zhongkai Bio-pharmaceuticals, or Suzhou Zongkai, that grants us the exclusive right to distribute their G-CSF product world-wide, excluding China.

The agreement was entered into in March 2004 and has an initial term of 10 years with automatic two year terms thereafter, unless terminated earlier by any of the parties before the end of the then current term. This agreement provides for joint development of a marketing plan and set pricing for the product with discounts based on the amounts sold. We also have the right to enter into sublicensing agreements so that other parties may assist in the regulatory approval process and for marketing and selling the product.

Terminated Programs. As a result of certain agreements entered into with Dr. Liu, one of our directors, and a company owned by Dr. Liu, Dragon had been working on the development of granulocyte-colony stimulating factor (G-CSF) and human insulin. We also entered into an agreement with a company whose sole shareholders were Dr. Liu and Mr. Yuen, also one of our directors, for development of a vaccine for Hepatitis B. After reviewing estimates of the time and capital required to complete, a determination was made to terminate these programs.

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Dragon entered into an agreement with Dr. Liu and Novagen, a company controlled by Dr. Liu, to develop the G-CSF gene. The G-CSF program was terminated without cost to Dragon.

Human insulin is a peptide hormone that is secreted by cells of the Islets of Langerhans in the pancreas, and plays a critical role in glucose homeostasis (i.e. balancing the level of glucose in the blood). Dragon entered into a research agreement with Dr. Liu to develop human insulin. This program has been terminated and a comprehensive

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agreement entered into with Dr. Liu to refund Dragon for a portion of the development costs previously paid (see Legal Proceedings).

Hepatitis B is a viral disease that causes both acute and chronic hepatitis (inflammation of the liver). Technology for this vaccine was acquired from a corporation owned by Dr. Liu and Mr. Yuen. On the termination of this program, Dr. Liu exercised certain rights to repurchase the Hepatitis B vaccine project for the original purchase price of \$4 million of which \$500,000 was paid and the balance of \$3.5 million, plus interest accruing at 6% per annum, was to be repaid on September 5, 2003. The \$3.5 million owed by Dr. Liu to us is unsecured. We have requested that Dr. Liu provide collateral for the amount due to us; however, Dr. Liu, while reaffirming his intention to abide by the terms of the amended agreement and pay the amount owing plus accrued interest, has declined to do so. As a result, during the fourth quarter of 2002, we wrote down the full amount due to us less a nominal amount of \$100 and later commenced legal action against him. A comprehensive agreement has been reached with Dr. Liu on the amount owing related to this project, see Information About Dragon - Legal Proceedings .

Product Approval Process

Dragon currently seeks registrations and government approval in countries where EPO is not protected by a patent; for the most part these are jurisdictions outside of North America, Japan, Australia, New Zealand and the 15 nations of the European Union.

A critical pre-requisite for seeking registration for rHu erythropoietin in countries outside of China is the product approval obtained in China by Dragon in 1996. Subsequently, the State Food and Drug Administration of China, or SFDA, has issued further regulatory certificates to Dragon: a Free Sales Certificate, or FSC, and a certification of Good Manufacturing Practices, or CGMP. Dragon presents these documents to ministries of health in other countries as proof that Dragon's facilities, processes, materials and the approved product comply with generally accepted international standards.

Dragon's regulatory affairs, or RA, staff work with their counterparts at licensee companies to assemble all necessary documentation, together with the FSC and CGMP, for regulatory submission to the licensee's local ministry of health. Additional documentation submitted consists of a World Health Organization, standard drug master file, or DMF, and a site master file, or SMF. In most cases, samples of the finished product are also submitted for laboratory analysis by the local ministry of health.

The DMF includes documentation on the drug's development process, materials used, safety and efficacy data, and information on the manufacturing processes and their associated quality control / quality assurance steps. The SMF describes Dragon's manufacturing premises, personnel, and control and validation systems. It may also provide records of site audits by the SFDA as well as foreign government inspectors.

After submission, the registration effort is supported by Dragon's RA staff through timely response to queries and requests for clarification or additional documentation from the licensee's local ministries of health. This is generally a continuing process, and it is expedited chiefly by issuing responses that are accurate, complete, and timely. In some cases, the local ministries of health may request permission to conduct their own audit and inspection of Dragon's facilities, as an additional measure of due diligence. In each case, Dragon grants these requests.

Depending on the speed at which the licensee's local ministries of health are able to conduct a review of the documentation and issue a recommendation for approval, the registration process may take as little as two months or as long as two years. Subsequent to formal issuance of government approval, Dragon's licensee may then seek to begin import, sales and distribution of the product.

Manufacturing and Facilities

Our corporate administrative office is located at 1055 West Hastings, Suite 1900, Vancouver, British Columbia, Canada V6E 2E9. Our lease on this 6,432 square feet premise expires in March 2007. Nanjing Huaxin currently leases a 90,000 square feet production facility in Nanjing, China at 293-2 Zhong Shan East Road, Nanjing, China. The lease on this premise expires in June 2009.

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The development and manufacture of EPO requires a license and permit from State Food and Drug Administration in China. Our subsidiary, Nanjing Huaxin, currently is licensed to make and sell EPO for kidney dialysis applications and for surgery patients. The license remains valid until August 18, 2005, and is renewable at that time. There are no restrictions on the license or permits other than the requirement that the EPO drug be manufactured in compliance with Chinese Good Manufacturing Practices, and the drug may be sold only for authorized medical purposes, such as anemia.

Intellectual Property

Our technology is not protected by any patents or copyrights nor do we intend to seek any such protection. We require all our research employees to sign confidentiality agreements regarding their work. However, without patent or copyright protection, we may not be able to prevent duplication of our technology by competitors.

We have received legal advice that the development, production and marketing of EPO in China is not subject to U.S. patents currently held by Kirin-Amgen because no corresponding patent was filed in China. Also, no administrative protection has been filed on EPO with the Chinese government authorities by Kirin-Amgen. In addition, we do not anticipate that any such patent or administrative protections will be imposed by U.S.-China agreements on intellectual property. As a result, we have not sought to obtain any rights or licensing from patent holders for the production or marketing of EPO in China. However, there is no assurance that U. S. patent holders or licensees may not attempt to assert claims of patent infringement in order to curtail or prevent our production and sale of EPO in China.

Competition

We have estimated that the world market for EPO to be approximately \$9 billion in annual sales and believe the market is growing. The market is dominated by three firms: Amgen Inc. of Thousand Oaks, California; Ortho Pharmaceutical Corp., a subsidiary of Johnson & Johnson, Inc. of New Brunswick, New Jersey; and Kirin Brewery Company Limited of Japan. EPO is marketed by Amgen as Epogen, by Johnson & Johnson as Procrit/Eporex and by Kirin as Espo. A fourth participant in the international EPO market is Roche Holding AG of Switzerland, which markets an EPO drug with a different heritage.

Amgen was granted United States rights to market EPO under a licensing agreement with Kirin-Amgen, Inc., a joint venture between Kirin and Amgen that was established in 1984. Johnson & Johnson acquired the rights to EPO from Kirin-Amgen for all treatments except kidney dialysis in the United States and for all uses outside the United States in 1985. Both Amgen and Kirin individually manufacture and market EPO for China and Japan. These international drug companies all have more financial resources than we do.

In addition to these international drug companies, we are competing with existing and potential Chinese producers such as Sunshine SS Pharma and Sinogen. Many of our competitors may have greater financial, technical and manufacturing resources than we have. These resources would allow our competitors to respond more quickly to new or emerging advances in the drug industry and to devote greater resources to the development, promotion and sale of their products.

Due to the Chinese growing market for pharmaceutical products, competition among drug producers is expected to increase during 2004. We anticipate that the EPO producers with the strongest marketing networks, best quality and price, and highest market shares will survive to service the EPO market in China. We believe we have established the necessary organization in China to meet this competitive challenge.

Potential competition in the EPO market includes other products or technologies that are successful in treating anemia. Amgen has sole right to Novel Erythropoiesis Stimulating Protein, a second-generation EPO molecule that will pose serious competition to the existing products because it offers the possibility of less frequent dosing (i.e., once a week rather than three times a week).

In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that could increase their ability to reach customers in the

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Chinese market. Such existing and future competition could affect our ability to penetrate the Chinese market and generate sales. No assurances can be given that we will be able to compete successfully against current and future competitors, and any failure to do so would have a material adverse effect on our business.

Description of Dragon Capital Stock

We are authorized to issue 50,000,000 shares of common stock, par value \$0.001, of which 20,582,000 were outstanding as of August 19, 2004. In addition, as of August 19, 2004, options and warrants to purchase 2,046,500 shares of Dragon common stock were outstanding.

All issued and outstanding shares of common stock are fully paid and non-assessable. Each holder of record of shares of common stock is entitled to one vote for each share so held on all matters requiring a vote of shareholders, including the election of directors. There are no preferences, conversion rights, pre-emptive rights, subscription rights, or restrictions or transfers attached to the common stock. In the event of the liquidation, dissolution, or winding up of Dragon, the holders of common stock are entitled to participate in Dragon's assets available for distribution after satisfaction of and the claims of creditors.

Human Resources

As of June 30, 2004, we had 11 employees in North America. We have approximately 150 employees in China, the majority of whom are involved in the production and sales and marketing of EPO in China. No key employee of Dragon or its subsidiaries has signed any employment contract. To our knowledge, no key employee of Dragon or its subsidiaries has any plan to leave the company in the near future or after the completion of the proposed acquisition. None of our workforce is unionized and there have not been any labor disputes.

Legal Proceedings

On November 2003, we filed a complaint against Dr. Longbin Liu, a current member of our Board of Directors and our former Chairman, for payment of \$3,500,000, plus interest calculated at 6% per annum, due on September 5, 2003, pursuant to the terms of the Acquisition Agreement related to the Hepatitis B Vaccine Project.

On April 4, 2004, Dragon, Dr. Longbin Liu and Novagen Holding Inc., a company controlled by Dr. Liu, entered into a comprehensive agreement to settle the amount owed to us by Dr. Liu as a result of his acquisition of the Hepatitis B Vaccine Project. The settlement agreement provides that the Hepatitis B Vaccine Project and the Patent and Project Development agreements, both dated January 14, 2002, as amended, have been cancelled. Further, pursuant to the settlement agreement, the G-CSF, human insulin and Hepatitis B Vaccine Projects, including rights of ownership and development obligations would revert to Dr. Liu. In exchange, Dr Liu will pay to us \$5,010,000. All amounts are due on December 31, 2004 and Dr. Liu has agreed to provide 2,600,000 shares of common stock of Dragon, to be held in escrow, as security for the amounts owing. Of these shares, 2,231,000 have been placed in escrow as of June 30, 2004. The closing price for a share of our common stock on June 30, 2004 was \$1.00, which places a value of \$2,231,000 on the shares as of that date. The warrants granted to Dr. Liu under the Patent Development agreement were cancelled.

As part of the settlement agreement each party agreed to mutually release the other party from any prior claims.

Information About Oriental Wave and Shanxi Weiqida

Overview

Oriental Wave, a company incorporated in the British Virgin Islands, is a privately owned holding company. Through its wholly-owned subsidiary, Shanxi Weiqida, Oriental Wave is principally engaged in the production and sale of pharmaceutical products in China. Shanxi Weiqida is organized under Chinese Company Law as a Wholly Foreign Owned Enterprise. Wholly Foreign Owned Enterprises are limited liability companies which are owned exclusively by one or more foreign investors.

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Shanxi Weiqida's operations are located in Datong City, Shanxi Province, China. Shanxi Weiqida currently holds approximately 290 licenses to produce pharmaceutical products in China. Out of these 290 licenses, Shanxi Weiqida produced 35 products in 2003. In 2002 and 2003 Shanxi Weiqida operated only a pharmaceutical division (the Pharma Division) which produced and marketed chemical generic, mainly anti-infectious, drugs. In January 2004, Shanxi Weiqida began operation of a Chemical Division (the Chemical Division) with a production facility for Clavulanic Acid. Final installation of equipment and infrastructure for the second production facility of the Chemical Division to produce 7-ACA has been completed. The pilot production commenced on July 1, 2004.

The registered address of Oriental Wave is located at Beaufort House, P.O. Box 438, Roadtown, Tortola, British Virgin Islands. Shanxi Weiqida's office is located in the Datong Economic and Technology Development Zone, Datong City, Shanxi, China.

The information contained in this proxy statement/prospectus concerning Oriental Wave and its subsidiary, Shanxi Weiqida, has been provided to us by Oriental Wave and, although we have completed certain due diligence reviews of Oriental Wave and its operations, including hiring a law firm in China to perform legal due diligence, we have not independently verified the information provided to us.

History and Development of Oriental Wave and Shanxi Weiqida:

The current pharmaceutical operations of Shanxi Weiqida were largely formed and organized through the acquisition of assets from three Chinese companies. Two of these acquisitions were completed out of bankruptcy procedures of state-owned pharmaceutical companies.

Shanxi Weiqida was formed in January 2002 as a Chinese domestic company, owned by Mr. Han, the Chairman of Oriental Wave and Mr. Weng, a director of Oriental Wave. At the time it was established, Shanxi Weiqida acquired, for no cost, from Shanxi Tongling Pharmaceutical Co., Ltd., or Shanxi Tongling, all drug production permits, GMP certificates and product licenses of Datong No. 2 Pharmaceutical Factory, or Datong No. 2 Pharmaceutical. The assets of Datong No. 2 Pharmaceutical were acquired by Shanxi Tongling in June 2001 out of bankruptcy for RMB 42.3 million, or approximately US \$5.1 million. Shanxi Tongling was founded in 1994 by Mr. Yanlin Han, Chairman of Oriental Wave.

In April 2002 Shanxi Weiqida acquired from Shanxi Tongzhen Pharmaceutical Co. Ltd., or Shanxi Tongzhen, all of its product licenses and production permits in consideration for assuming approximately RMB 6.7 million, or approximately US \$0.8 million, of bank debt upon the liquidation of Shanxi Tongzhen.

In June 2002, Shanxi Weiqida purchased the assets relating to a capsules and injectables production line, including certain equipment, inventory, receivables and product licenses and related production permits, from Aurobindo Tongling (Datong) Pharmaceutical Co., Ltd., or Aurobindo Tongling (Datong), for consideration of approximately RMB 33.75 million, or approximately US \$4.1 million. At the time of the transaction, Mr. Yanlin Han, Chairman and controlling shareholder of Oriental Wave, was also the Chairman of Aurobindo Tongling (Datong).

In August 2002, the control of Shanxi Weiqida was transferred to Canadian First Pharmaceutical Co., Ltd., or Canadian First Pharmaceutical, and Shanxi Weiqida was re-established as a Wholly Foreign Owned Enterprise under Chinese Law. Canadian First Pharmaceutical was controlled by Mr. Yanlin Han, Chairman and controlling shareholder of Oriental Wave. As a result, Canadian First Pharmaceutical became the holding company of Shanxi Weiqida and had no other operations or business other than Shanxi Weiqida. In March 2003, Canadian First Pharmaceutical transferred its entire ownership in Shanxi Weiqida to Oriental Wave. Oriental Wave has no other operations or business other than Shanxi Weiqida.

In September 2002, Shanxi Weiqida acquired out of bankruptcy all assets of Datong Pharmaceutical Factory, or Datong Pharmaceutical, a state-owned enterprise, including the land use rights of Datong Pharmaceutical. Pursuant to the acquisition agreement entered into with the Datong Economic Committee of the Datong Municipal Government, Shanxi Weiqida acquired the assets in consideration for assuming all liabilities related to the employees of Datong Pharmaceutical. The agreement requires Shanxi Weiqida to pay the former employees of Datong Pharmaceutical certain minimum wages and health care costs until the date of their re-employment,

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retirement or death, whichever occurs first. Shanxi Weiqida has arranged for the re-employment or retirement of approximately 66% of the Datong Pharmaceutical employees and expects to rehire the remaining balance once the 7-ACA facility is fully operational.

In February 2003, Shanxi Weiqida commenced construction of a Clavulanic Acid manufacturing facility, which was completed in August 2003. Pilot production began in August 2003 and full-scale production began in January 2004. Construction of Shanxi Weiqida's 7-ACA workshop was completed in December 2003 and installation of the production system and machinery for the workshop has been completed. The pilot production commenced on July 1, 2004.

As a result of the acquisitions and expansions described above, Shanxi Weiqida has developed into an advanced, comprehensive, GMP certified pharmaceutical and development company. Shanxi Weiqida owns production capabilities to manufacture both pharmaceutical drugs and bulk pharmaceutical chemicals through its Pharma Division and Chemical Division. In its 258,300 square feet manufacturing facility, the Pharma Division operates one powder for injection workshop, one general formulation workshop and one sterilized bulk drug workshop. In its 818,100 square feet manufacturing facility, the Chemical Division produces Clavulanic Acid and 7-ACA.

Shanxi Weiqida's head office is located in a special economic region in China. This economic region allows foreign enterprises a two-year national income tax exemption beginning in the first year after they become profitable and a 50% national income tax reduction for the following three years. Shanxi Weiqida became profitable in 2003.

Management's Discussion and Analysis of Financial Condition

Summary

Shanxi Weiqida was incorporated on January 22, 2002 and has a financial year from January 1 to December 31. Oriental Wave was formed as a corporate reorganization involving Shanxi Weiqida. Therefore, Oriental Wave, which includes the results of Shanxi Weiqida, reported results for 2003 for a 12 month period whereas the results for 2002 reflect operations for the period from January 22, 2002 to December 31, 2002 (Year 2002).

For the year ended December 31, 2003, Oriental Wave had sales of \$26,086,092 and net income of \$7,583,972 compared to sales of \$11,225,216 and a net loss of \$242,324 for Year 2002. Sales for the Year 2002 and year ended December 31, 2003 were attributed to products from Shanxi Weiqida's Pharma Division. The increased sales during 2003 was mainly due to the fact that Oriental Wave was involved in acquiring certain private and state-owned enterprises in Year 2002 and therefore, Oriental Wave was in the process of restructuring, reorganizing and consolidating the operations, production and sales and marketing of those acquired businesses. Comparatively, 2003 results reflected a full year operations and results of the acquired businesses. During the beginning of 2004, Shanxi Weiqida's Chemical Division began producing and selling Clavulanic Acid and commenced pilot production of 7-ACA on July 1, 2004. Therefore, because of acquisitions and production and sales by the new Chemical Division, Shanxi Weiqida's prior operating history may not be representative of future operations.

For the six months ended June 30, 2004, Oriental Wave had sales of \$14,475,985 and net income of \$5,112,839 compared to sales of \$11,569,795 and net income of \$4,446,123 for the same period in 2003. The increase in sales for the six months ended June 30, 2004 compared to the same period of 2003 was due to the contribution of sales from the Chemical Division, which began its operation on January 1, 2004. The slight decrease in net income for the six months ended June 30, 2004 compared to the same period of 2003 was due to the initial higher

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production and operation costs related to the Chemical Division. In addition, Oriental Wave recognized other income of \$834,537 from the gain on extinguishment of retirement obligations relating to certain employees of Datong Pharmaceutical.

As of June 30, 2004, Oriental Wave had \$12.9 million in short-term notes of which \$1.81 million is due in September 2004 and the balance is due in 2005. In addition, as of June 30, 2004, Oriental Wave had \$21.6 million

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in accounts payable and accrued expenses. Oriental Wave had a negative working capital of (\$16,810,887) as of June 30, 2004 because Oriental Wave financed its operations and investment in its Chemical Division through operating cash flow, short-term notes and accounts payables. Oriental Wave is currently working with its bankers to seek renewal of the note due in September 2004 and intends to renegotiate its notes due in 2005. Assuming Oriental Wave refinances its notes, Oriental Wave believes that it will have sufficient cash flow to pay its obligations. However, this negative working capital may limit Oriental Wave's growth in the near term.

Results of Operations for the Six Months Ended June 30, 2004 and 2003

Sales. Sales for the six months ended June 30, 2004 were \$14,475,985 compared to sales of \$11,569,795 for the six months ended June 30, 2003. All sales for the first six months in both 2004 and 2003 were generated from the sale of products in the Chinese market. In the first six months of 2004, \$12,056,222 or approximately 83.0% of the sales for the first six months in 2004 were from the Pharma Division and the remaining \$2,419,763 or 17.0% of sales were from the Chemical Division which commenced operation on January 1, 2004. For the same period in 2003, 100% of sales were from the Pharma Division. The increase in sales was primarily due to sales from the Chemical Division.

Cost of sales for the six months ended June 30, 2004 was \$6,633,231 compared to \$4,567,561 for the six months ended June 30, 2003. The cost of sales is attributed to the production costs of Oriental Wave's pharmaceutical products especially increases in the cost of good sold related to the products from the Chemical Division. Gross profit for the six months ended June 30, 2004 was \$7,842,754 or 54% compared to \$7,002,234 or 60% for the same period of 2003.

The increase in sales for the first six months of 2004 compared to the same period of 2003 was mainly due to the fact that Oriental Wave's Chemical Division began operations on January 1, 2004 and contributed 17.0% of the sales for the first six months. Gross margin for the first six months of 2004 decreased from the same period in 2003. The gross margin for the Chemical Division was slightly lower than the Pharma Division due to the higher initial start-up costs associated with the start of operation of the production facility for Clavulanic Acid.

Other Income. During the six months ended June 30, 2004, Oriental Wave recognized \$830,629 of Other Income. This amount primarily consisted of \$834,537 of gain on extinguishment of retirement obligations related to Oriental Wave's hiring of certain former employees of Datong Pharmaceutical. In connection with the acquisition of Datong Pharmaceutical, Oriental Wave was required to assume certain employee liabilities of Datong Pharmaceutical. Because Oriental Wave has hired certain of the former employees, these obligations have been extinguished resulting in a gain. See also *Liquidity and Capital Resources* and *Human Resources* below. No similar gain occurred during the same period of the prior year.

Expenses. Total operating expenses were \$3,208,134 for the six months ended June 30, 2004 compared to \$2,603,304 for the same period in 2003. The major category of operating expenses was the General and Administration expenses which included \$1,334,725 for salaries, compensation and benefits and \$270,034 for travel and entertainment expenses and \$1,236,096 for salaries, compensation and benefits and \$55,740 for travel and entertainment expenses for the first six months of 2003. The increase in operating expenses reflects the increased overhead related to the operations of both the Pharma and Chemical Divisions in 2004 compared to just the Pharma Division in 2003.

Net Income. Oriental Wave had a net income of \$5,112,839 for the six months ended June 30, 2004 compared to a net income of \$4,446,123 for the same period in 2003. In addition, net income reflects other income of \$834,537 from the gain on extinguishment of retirement obligations relating to certain employees of Datong Pharmaceutical.

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Basic and Diluted Net Income Per Share. Oriental Wave's net income per share has been computed by dividing the net income for the period by the weighted average number of shares outstanding during the same period. Net income per share for the six months ended June 30, 2004 was \$102.26 per share and for the six months ended June 30, 2003 was \$88.92 per share. The weighted average number of shares outstanding during both periods was 50,000 shares and there were no outstanding common stock options and common stock warrants that could lead to an issuance of common stock upon their exercise.

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Results of Operations for the Fiscal Years Ended December 31, 2003 and 2002

Sales. Sales for the year ended December 31, 2003 were \$26,086,092 compared to sales of \$11,225,216 for the Year 2002. Sales in 2003 and Year 2002 were all generated from the sale of pharmaceutical products in the Chinese market from Oriental Wave's Pharma Division as the Chemical Division did not start operations until January 1, 2004.

Cost of sales for the year ended December 31, 2003 were \$13,817,298 compared to \$8,916,570 for the Year 2002. The cost of sales is attributed to the production costs of Oriental Wave's pharmaceutical products. Gross profit for the year ended December 31, 2003 was \$12,268,794 compared to \$2,308,646 for the Year 2002. Gross margins were 47% for the full year of 2003 and 20.5% for the Year 2002.

The increase in sales and gross margin for 2003 compared to the Year 2002 are attributed to the acquisition of certain assets from other pharmaceutical companies and the relocation of the operations of Shanxi Weiqida to new headquarters and production facility. On April 1, 2002, Oriental Wave acquired all product licenses and production permits from Shanxi Tongzhen and on June 4, 2002, Oriental Wave purchased the assets related to the capsules and injectables production line, including certain equipment, inventory, receivables and product license and related production permits, from Aurobindo Tongling (Datong). Oriental Wave was still in the stage of restructuring, reorganizing and consolidating the operations, production and sales and marketing of those acquired assets in 2002 and therefore the sales and gross margin for the Year 2002 were lower than during 2003. Oriental Wave relocated to its new headquarters and production facility at the Datong Economic and Technology Development Zone in Datong City at the end of December 2002. As a result, Oriental Wave managed to achieve higher sales, lower production costs and higher gross margin in 2003 as compared to the Year 2002 as there was less interruption of the business and higher efficiency in production in 2003.

Expenses. Total operating expenses were \$4,696,419 for the year ended December 31, 2003 compared to \$2,452,206 for the Year 2002. The major category of the operating expenses was general and administration expenses of which \$2,610,344 was for salaries, compensation and benefits and \$165,694 for travel and entertainment expenses for the year of 2003 compared to \$1,237,362 for salaries, compensation and benefits and \$40,252 for travel and entertainment expenses for the Year 2002.

Net Income/Loss. Oriental Wave had a net income of \$7,583,972 for the year ended December 31, 2003 compared to a net loss of \$242,324 for the Year 2002. The increase in net income for 2003 compared to the Year 2002 was mainly due to the increase in sales and gross margin discussed above.

Basic and Diluted Net Income / (Loss) Per Share. Oriental Wave's net income per share has been computed by dividing the net income for the period by the weighted average number of shares outstanding during the year 2003. The net income per share for the year ended December 31, 2003 was \$151.68 per share and the loss per share for the Year 2002 was \$4.85 per share. The weighted average number of shares outstanding was 50,000 shares and there were no outstanding common stock options and common stock warrants.

Liquidity and Capital Resources

As of June 30, 2004, Oriental Wave had current liabilities of \$34,585,257 and current assets of \$17,774,370, including a cash balance of \$679,756 and accounts receivables of \$6,050,714. Its working capital deficiency is mainly due to the additional bank loans and payables incurred to finance its working capital requirements and investment in the Chemical Division.

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As of June 30, 2004, Oriental Wave had current liabilities of \$34,585,257 as follows:

Accounts Payable		\$ 9,647,480
Other Payables and Accrued Expenses		\$ 8,984,936
Raw Material expenses received in advance		\$ 2,995,169
Due to Related Companies		\$ (73,614)
Notes Payable-Short Term:		
Note payable to a bank, interest rate of 6.372% per annum, due June 2005	\$ 420,290	
Note payable to a bank, interest rate of 6.372% per annum, due June 2005	\$ 386,473	
Note payable to a bank, interest rate of 4.779% per annum, due \$1,811,595 September 2004 and March 2005	\$ 3,623,189	
Note payable to a bank, interest rate of 6.039% per annum, secured by leasehold land and fixed assets, due April 2005	\$ 8,454,106	
Notes Payable - Short Term Subtotal		\$ 12,884,058
Total Current Liabilities		\$ 34,585,257

The Accounts payable were incurred as part of the normal course of business of Oriental Wave while other payables and accrued expenses were incurred as part of the investment in establishing the Chemical Division. Raw Material expenses received in advance was related to the advance deposits received from Aurobindo Biopharma as described below.

As of June 30, 2004, Oriental Wave had outstanding short-term notes (less than one year term) totaling approximately \$12.9 million, out of which approximately \$1.8 million will be due in September 2004 and \$11.1 million will be due during 2005. Oriental Wave is currently in discussion with its bankers to renegotiate or renew the \$1.8 million due in September 2004 and approximately \$8 million due in the first two quarters of 2005. Oriental Wave believes that it will be successful in the renegotiating its notes based on the assumption that Oriental Wave has enhanced its ability to generate additional profit and cash flow from its operation since the notes were originally entered into. Since then, Oriental Wave's Chemical division commenced production and began generating profit and cash flow. Further, it entered into a three-year long term supply contract with Aurobindo Biopharma to supply specified amounts of Clavulanic Acid and 7-ACA produced from its Chemical division. With this long-term supply agreement, Aurobindo Biopharma has agreed to purchase approximately 55% of the expected production volume of the Chemical Division during the three-year term of the agreement. Assuming that Oriental Wave is successful in renegotiating its notes as mentioned above, it believes that it will have enough cash flow for its operations for at least the next twelve months.

Long-term Liabilities:

At June 30, 2004, Oriental Wave had long-term liabilities of \$16,910,510 as follows:

Due to related companies	\$ 5,072,464
Long-term retirement benefits	\$ 1,133,154
Note payable to a bank, interest rate of 4.941% per annum, due \$1,811,595 September 2005 and March 2006	\$ 3,623,188
Long-term account payable	\$ 7,081,704
Total Long-term Liabilities	\$ 16,910,510

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As of June 30, 2004, Oriental Wave had \$5.1 million outstanding to a related party, Shanxi Tongling. Mr. Han is the Chairman of both Oriental Wave and Shanxi Tongling. Oriental Wave is in the process of restructuring its short and long-term debt to extend these obligations, and, as a closing condition of the Share Purchase Agreement, \$2.4 million (RMB 20 million) of the amount due to Shanxi Tongling will be converted into capital of Shanxi Weiqida. As a result, out of the \$5.1 million owed by Oriental Wave to Shanxi Tongling, the balance of approximately \$2.7 million will remain as loan which will be due in March 2006. Assuming Oriental Wave can successfully renew or renegotiate the short-term notes payable mentioned above, Oriental Wave believes that it will

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be able to meet with this obligation when it becomes due. However, if necessary, Oriental Wave believes that the repayment of this remaining \$2.7 million can be further renegotiated.

As of June 30, 2004, Oriental Wave had long-term retirement benefits of \$1,133,154, which was incurred in July 2003 when Oriental Wave acquired land and buildings from a government liquidator in exchange for assuming certain future employment, healthcare and land acquisition costs of the factory and its former employees during July 2003. Oriental Wave is required to pay certain minimum wages and health care costs until the date of their employment, retirement or death, whichever occurs first. The total amount of the liabilities assumed on the closing date was \$8,897,685, which approximated the appraised value of the land. As of June 30, 2004, Oriental Wave had employed 647 former employees and 144 former employees have retired. Oriental Wave has calculated the related asset value by computing the net present value of the future expected payments to the remaining 260 employees assuming an interest rate of 3%. As of June 30, 2004, approximately 260 former employees of Datong Pharmaceutical remained as the obligation of Oriental Wave, out of which 150 are expected to be rehired by the end of 2004 and the remaining 90 are expected to retire within 2 to 3 years.

Oriental Wave had long-term notes payables (one to two years) totaling approximately \$3.6 million which will be due on September 2005 and March 2006 and long-term account payables of \$7.1 million which will become due during the first six months of 2006. Assuming Oriental Wave can successfully renew part of the short-term notes mentioned above, Oriental Wave believes that it will be able to meet its long-term notes payable and long-term account payables when they become due with the expected increase in profit and cash flow from the addition of the Chemical Division in 2004.

Further, Oriental Wave believes that, based on the increase in sales from the Chemical Division, and the recognition of the short-term notes in the near future, it will be able to raise capital through the sale of its equity securities which would enhance Oriental Wave's financial position. However, no assurance can be given that Oriental Wave will be able to raise additional capital through the sale of its equity securities.

Compliance with the Required Statutory Reserve Funds

As a Wholly Owned Foreign Enterprise, under Chinese law Shanxi Weiqida may distribute its after tax profits only after making transfers to three reserve funds: a statutory surplus reserve, a public welfare fund and an enterprise expansion fund (if established). The statutory surplus reserve enterprise expansion fund and public welfare fund are shown on the balance sheets as part of owners' equity.

The statutory surplus reserves are established by the enterprise to maintain the share capital of the company at a certain level to provide a reserve protecting against the effect of operating losses. At least 10% of the after tax profits must be contributed to the statutory surplus reserve fund until it equals 50% of the Company's registered capital, and thereafter no further contributions to that fund need to be made. Except for the reduction for losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

The public welfare fund is to be utilized for capital items for the collective benefits of a company's employees such as the construction of dormitories, cafeteria and other staff welfare facilities. This fund is non-distributable other than in liquidation. When the relevant assets are disposed of or written off, the original transfers from the statutory public welfare fund are reversed. An amount, as determined from time to time by Shanxi Weiqida's board of directors, of between 5% to 10% of the after tax profits must be contributed to the public welfare fund.

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Under Chinese law, Shanxi Weiqida's shareholders may choose to establish an enterprise expansion fund to provide for capital expenditures and working capital. This reserve is non-distributable other than in liquidation. When the relevant asset are disposed of or written off, the original transfers from the expansion fund are reversed. Shanxi Weiqida does not currently have an enterprise expansion fund.

Compliance with Registered Capital Requirements in China

Oriental Wave's subsidiary, Shanxi Weiqida, has a registered capital of \$19,205,116 of which Oriental Wave has contributed \$13,977,504 as of June 30, 2004, with the balance owing of \$5,227,612 still to be fulfilled.

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Pursuant to Chinese regulations, Oriental Wave has up to five years to fulfill the registered capital requirement and such requirements can be satisfied through the conversion of undistributed profit and reserve. Oriental Wave expects the unregistered balance to be fully satisfied within the required timeframe by converting into registered capital approximately \$2.4 million (RMB 20 million) of the amount due to a related party and Oriental Wave's undistributed profit and reserve generated in the coming years into registered capital. See *Dragon After the Acquisition of Oriental Wave - Liquidity and Capital Resources*.

Regulation of the Chinese Pharmaceutical Industry

The modernization of regulations for the pharmaceutical industry is relatively new in China and the manner and extent to which this industry is regulated will continue to evolve. As a pharmaceutical company, Shanxi Weiqida is subject to the Pharmaceutical Administrative Law, which governs the licensing, manufacture, marketing and distribution of pharmaceutical products in China. Additionally, Shanxi Weiqida is subject to varying degrees of regulation by governmental agencies in China.

Principal supervisory authority in the industry. SFDA is the principal supervisory authority in the pharmaceutical industry in China. It was established in March 2003 on the basis of the former State Drug Administration of China, which was established in March 1998. The SFDA is responsible for the administrative and technological supervision of the research, production and trading of pharmaceutical products and the consolidated supervision of the safety management of food, health care and cosmetic products.

Certificates, permits and licenses for pharmaceutical manufacturing and trading enterprises. A pharmaceutical production enterprise or pharmaceutical trading enterprise must apply for the relevant permit from the relevant regulatory department in China. The Industry and Commerce Administration Department will issue a business license only after the pharmaceutical regulatory department has considered the application and approved the issue of a pharmaceutical production permit or pharmaceutical trading permit. Such permits are valid for a period of five years and application for renewal must be made six months prior to its expiry date. A new permit will be issued after reassessment, examination and approval by the relevant pharmaceutical regulatory department.

Good Manufacturing Practices (GMP). GMP is a set of standards in respect of quality management of the manufacturing of pharmaceutical products which is promoted by the World Health Organization (WHO). These are applicable to the entire pharmaceutical production process and the key working procedures for the production of raw materials which affect the quality of finished medicine products. Many countries have formulated their own requirements for GMP based on the GMP promoted by WHO. The Administration Center of Pharmaceutical Certification of the SFDA is responsible for pharmaceutical GMP certification in China. A GMP certificate is valid for a term of five years and application for renewal has to be submitted three months prior to its expiration date.

Registration of pharmaceutical products. All pharmaceutical products proposed to be sold in China (including previously unapproved drugs, changes in the form or method of administration of previously approved drugs and imported pharmaceutical products) are required to be registered and obtain an approved pharmaceutical number granted by the SFDA. The procedures for applying for registration of pharmaceutical products can be generally divided into the following stages:

after completion of the pre-clinical research of the new medicine, application for registration of the new medicine must be submitted to the drug regulatory authorities at the provincial level for review. The drug regulatory authorities at the provincial level, after completion of its review, may submit its opinion and report to the SFDA for review;

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if all the requirements are complied with, the SFDA will issue a notice of acceptance and proceed with its assessment on whether to grant the approval for conducting the clinical research on the new medicine;

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after obtaining the approval for conducting the clinical research by the SFDA, the applicant may proceed with the relevant clinical research (which is generally divided into three phases) at institutions with the appropriate qualifications;

after completion of the relevant clinical research, the applicant must submit its clinical research report together with the relevant supporting documents to the drug regulatory authorities at the provincial level and provide the raw materials of the new medicine to the China Examination Bureau of Pharmaceutical and Biological Products (the China Examination Bureau);

the China Examination Bureau will arrange for the conduct of examination of the raw materials supplied by the relevant medicine examination institutes which will then issue the examination result report;

the drug regulatory authorities at the provincial level must then review the relevant documents, conduct site inspection, exam samples and, thereafter, submit its opinion, inspection reports and other application materials to the SFDA for review; and

if all the regulations are complied with, a certificate of new medicine and a pharmaceutical approval number (if the applicant has a valid Pharmaceutical Products Production Permit and the requisite production conditions for the new medicine) will be granted by the SFDA.

Prescription medicines and over-the-counter medicines. Prescription medicines must be dispensed, purchased and taken with the prescription of practicing doctors or assistant doctors. Purchase of over-the-counter medicines do not require doctors' prescriptions and can be dispensed, purchased and taken by users. The SFDA is responsible for the selection, approval, publication, and revision of the over-the-counter medicine catalogue.

Wholesalers of prescription and over-the-counter medicines and retailers of prescription and over-the-counter type A medicines must hold a pharmaceutical trading enterprise permit . Commercial entities may engage in the retail of over-the-counter type B medicines subject to the approval of the provincial pharmaceutical regulatory authorities or their delegated bureaus. Prescription medicines may be advertised only in medical journals and over-the-counter medicines may be advertised in the mass media.

Import and export restriction. Imported pharmaceutical products are required to meet certain safety and quality standards set by the Chinese government. In addition, these products should have been approved for sale in the country or region where they are manufactured. If the products are not approved in the foreign countries, they can be imported only subject to the approval from the SFDA. The export of pharmaceutical products when there is shortage of supply in China may be restricted or prohibited.

Price control. In July 2000, in order to enhance market competition of the pharmaceutical industry and to reduce medical expenses, the former State Development and Planning Commission of the PRC promulgated a new policy in respect of reforming the price control of pharmaceutical products in China. According to the policy, the price of pharmaceutical products is subject to the control of the price supervising bureau at state and provincial levels. The bureau generally classifies pharmaceutical products into two groups: (1) government-pricing pharmaceutical products; and (2) market-pricing pharmaceutical products.

Pharmaceutical products where prices are determined by National Development and Reform Commission of the PRC are limited to Category A pharmaceutical products listed in Medicine Catalogue of National Basic Medical Insurance and pharmaceutical products with monopolistic attributes (including anaesthetic medicines, certain type of psychiatric medicines, vaccines and contraceptive drugs). The price of Category B pharmaceutical products listed in the Medicine Catalogue of National Basic Medical Insurance are determined by the price supervising bureau at the provincial level according to the price determination policies adopted by the Central Government.

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On November 21, 2000, the former State Development and Planning Commission of the PRC promulgated Notice Regarding Rules on Application for Approval for the Prices of Pharmaceutical Products set by the PRC Government, stating that:

(i) for all pharmaceutical products first launched in China as listed in the price index of the State Development and Planning Commission of China, drug manufacturing enterprises are required to submit their price-setting applications to the price supervising bureau at the provincial level. The provincial price supervising bureau would then transfer such applications to the former State Development and Planning Commission of the PRC after review for further approval;

(ii) for all new pharmaceutical products first launched in China as listed in the price index of the provincial government, drug manufacturing enterprises are required to submit their price-setting applications to price supervising bureau at the provincial level;

(iii) for the patented pharmaceutical products, Categories 1 and 2 new pharmaceutical products not listed in Medicine Catalogue of National Basic Medical Insurance, after trial production in China, drug manufacturing enterprises are required to submit their price-setting applications to the price supervising bureau at the provincial level for preliminary approval when they make applications for formal production. Then the provincial price supervising bureau would then transfer such applications to the former State Development and Planning Commission of the PRC to determine the price;

(iv) for the patented pharmaceutical products, Categories 1 and 2 pharmaceutical products not listed in Medicine Catalogue of National Basic Medical Insurance, which are not required to be carried out trial production in China, drug manufacturing enterprises are required to submit their price-setting applications to the price supervising bureau at the provincial level for approval after one year from obtaining of the production approval or the first import permit. Then the provincial price supervising bureau would then transfer such applications to the Economic Planning Commission of China for further approval; and

(v) for all pharmaceutical products currently sold in China market as listed in The Price Index of the Provincial and the State Development and Planning Commission of China, before new prices are set by the relevant price supervising authorities according to the market survey information, drug manufacturing enterprises can sell their products at the then prevailing price.

Approximately 22 out of the 35 products from the Pharma Division of Shanxi Weiqida, accounting for approximately 39% of its 2003 sales and 43% of its sales in the first six months of 2004, are subject to government imposed retail price controls in China. If manufacturing costs increase for products of Shanxi Weiqida that are subject to price ceilings, and the retail price for those products is not adjusted upwards, Oriental Wave's profitability may be adversely affected.

Reimbursement. Only those drugs that appear on the provincial and municipal reimbursement lists are covered by the national medical insurance system, which may favor locally-manufactured products as they may be lower cost alternatives. The State Development Planning Commission of China has announced its intention to re-examine the pricing of drugs in China.

Product liability. Product liability claims may arise if harmful products are sold to members of the public or if there are any alleged harmful effects from the consumption of the products. Under current Chinese laws, manufacturers and vendors of defective products in China may incur civil and criminal liability for loss and injury caused by such products.

Products

In 2003, Oriental Wave only offered products through the Pharma Division of Shanxi Weiqida. Commencing in January 2004, Shanxi Weiqida began operating in two business divisions, a Pharma Division and a Chemical Division. All of Shanxi Weiqida's sales came from the Pharma Division in 2003 but, in the first quarter of 2004, 75% of sales came from the Pharma Division and 25% from the Chemical Division.

Shanxi Weiqida owns approximately 290 product licenses and permits issued by the SFDA in eight presentation formats: 130 types of tablets, 14 types of granules, 10 types of suppositories, 23 types of capsules, one type of powder, 54 types of powders for injection, 15 types of bulk pharmaceutical chemicals, and 44 types of

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injections. In 2003 Shanxi Weiqida produced and marketed 35 of the possible 290 products it was entitled to sell. Shanxi Weiqida's strategy is to commercialize the products that it believes it has a competitive advantage in producing and marketing.

Sterilized bulk drugs produced under the Pharma Division are used as raw materials for the formulated products. Starting in 2004, certain amounts of the sterilized bulk drugs began to be marketed to other pharmaceutical company as raw materials. Sales of sterilized bulk drugs sold to other companies are included in the sales of the Chemical Division, and sales of formulated products derived from internally manufactured sterilized bulk drugs are included in sales of the Pharma Division.

Pharma Division

The Pharma Division of Shanxi Weiqida operates in both the prescription and over-the-counter pharmaceutical market segments. It primarily produces anti-microbial drugs that fall within the anti-infectious and synthetic anti-bacterial segments. The following chart shows the categories of drugs produced by the Pharma Division.

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The Pharma Division offered products in two main categories in 2003: prescription drugs and over-the-counter drugs. The following tables detail the top five prescription drugs and over-the-counter products produced and marketed by Shanxi Weiqida:

Prescription Drugs				Percentage of 2003 Sales
Drug Name	Category	Presentation	Treatment	
Sulbactam Amoxicillin	Penicillin	Injectable	For use in the treatment of infections of the lungs, throat, sinuses, kidneys, bladder and skin.	30.39%
Ampicillin Cloxacillin	Penicillin	Injectable	For use in prophylaxis of falciparum malaria and rheumatoid arthritis inflammations.	15.08%
Mezlocillin	Penicillin	Injectable	For use in the treatment of febrile granulocytopenic cancer patients.	13.25%
Metronidazole	Nitroimidazoles	Injectable	For use in the treatment of infections (non-bacterial) by amebiasis, trichomoniasis, giardiasis, stomach and duodenal ulcers.	9.42%
Levofloxacin	Quinolones	Injectable	For use in the treatment of infections of lungs, sinuses, skin urinary tract and kidneys.	4.21%

Over-The-Counter Drugs				Percentage of 2003 Sales
Drug Name	Category	Presentation	Treatment	
Compound Liquorice	Non-Penicillin	Tablets	For use in the treatment of respiratory infections (including acute and chronic respiratory infections, bronchitis, sinusitis).	3.56%
Cefoperazone	Cephalosporin	Injectable	For use in the treatment of infections of the lung, skin, bone, joint, stomach, blood, gynecological and urinary tract.	2.11%
Amoxicillin	Penicillin	Capsules	For use in the treatment of upper respiratory infections, including otitis media, pharyngitis, nasosinusitis, tonsillitis, genito-urinary tract infection, skin or soft tissue infections and lower respiratory tract infections, including acute bronchitis, pneumonia, acute simple gonorrhea.	2.07%
Fosfomycin Sodium	Others	Injectable	For use in the treatment of bladder infections (cystitis).	1.66%
Cefadroxil	Cephalosporin	Capsules	For use in the treatment of nasal infections, pharyngitis, urinary tract infections and skin infections (including staph, strep, and E. coli).	0.84%

Chemical Division

The Chemical Division currently produces Clavulanic Acid and the pilot production of 7-ACA commenced on July 1, 2004. Clavulanic Acid is used together with antibiotics to make the antibiotics more effective and longer-lasting. 7-ACA is an intermediate for Cephalosporin antibiotics and is converted into active pharmaceutical ingredients to produce Cephalosporin. The Chemical Division also markets certain sterilized bulk

drugs to other pharmaceutical companies as raw materials.

Clavulanic Acid. Beta-lactam antibiotics, such as the penicillins and cephalosporins, act by disrupting the development of bacterial cells walls thus causing the disintegration of the bacteria. However, some bacteria have acquired the genes to produce enzymes which inactivate this mode of action - so called beta-lactamases and thus drastically reducing the efficacy of this class of antibiotics. Clavulanic Acid acts to inhibit the effectiveness of bacterial beta-lactamases since they are much more inclined to bond to Clavulanic Acid than to beta-lactam

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antibiotics. In this way, bacterial beta-lactamases miss their target and the antibiotic has free access to the bacterial wall which it affects.

Shanxi Weiqida's Clavulanic Acid technology and production process was licensed and transferred from Alpha Process Trust Reg., or Alpha Trust. With the commencement of the production of Clavulanic Acid in January 2004, Shanxi Weiqida became the first commercial scale producer in China. By being the first such producer, Oriental Wave believes it has a competitive advantage over other manufacturers in China to fulfill demands for Clavulanic Acid domestically as well as internationally.

The technology transfer agreement with Alpha Trust was entered into in August 2002 and has a term of three years. Under its terms, Shanxi Weiqida is to pay Alpha Trust an aggregate of \$600,000 upon the achievement of certain milestones, of which \$540,000 has been paid to date. The agreement also provides that Alpha Trust will provide certain technical services and Shanxi Weiqida is committed to providing a project team and materials for implementation.

7-ACA. 7-ACA is the intermediate of Cephalosporins antibiotics. Cephalosporins belong to the Beta-lactam class of antibiotics. Second only to the penicillins, Cephalosporin C is manufactured on a very large scale with thousands of tons per year.

Shanxi Weiqida's 7-ACA technology and production process was licensed and transferred from Alpha Trust. The construction of the production facility has been completed and production equipment has been installed. The pilot production of 7-ACA commenced on July 1, 2004.

This technology transfer agreement was originally entered into on April 18, 2002, between Shanxi Weiqida and Alpha Trust. The technology transfer agreement expires upon the later of two years from the date of the agreement or one year after production commences and, under its terms, Shanxi Weiqida is to pay an aggregate of \$650,000 to Alpha Trust, of which \$250,250 has been paid to date. It also includes similar provision for Alpha Trust's technical services to Shanxi Weiqida's project team and materials.

Sales and Marketing

Sales from the Pharma Division are made solely in China and from the Chemical Division in China and overseas. The table below sets forth Shanxi Weiqida's sales since inception on January 22, 2002 by product segments:

	2002 since inception		2003 Full Year		2004 first six months	
	\$ Million	%	\$ Million	%	\$ Million	%
Pharma Division						
Prescription Drugs	10.5	93.8	23	88.1	9.5	65.3
Over-the-counter Drugs	0.7	6.2	3.1	11.9	2.6	18
Chemical Division						
China					2.4	16.7
International						

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Total	11.2	100	26.1	100	14.5	100
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All above sales of the Pharma Division and the Chemical Division were made in China. Shanxi Weiqida expects to add international sales in the balance of 2004 under a three-year long-term supply agreement with Aurobindo (Datong) Bio-Pharma Co., Ltd., or Aurobindo Biopharma, to supply it with specified amounts of Clavulanic Acid and 7-ACA. Deliveries commenced under this agreement in September 2004.

During 2002 and 2003 and the first six months of 2004, sales to Shanxi Weiqida's five largest customers, which are distributors of pharmaceutical products in China, accounted for approximately 15.3%, 11.5% and 10% of Shanxi Weiqida's sales, respectively; while sales to Shanxi Weiqida's largest customer accounted for approximately

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5.5%, 3.5% and 3.7% of Shanxi Weiqida's sales, respectively. Currently, except for the Aurobindo Biopharma contract discussed below, Shanxi Weiqida has historically made its sales through purchase orders and not through long-term contracts.

In March 2004, Shanxi Weiqida entered into a supply agreement with Aurobindo Biopharma. Under the terms of the agreement, Aurobindo Biopharma has agreed to purchase the lower of 50% of Shanxi Weiqida production or 20 metric tons per month of 7ACA at a discount of approximately 11% from the prevailing market price. In connection with this agreement, Aurobindo Biopharma advanced \$3 million to Shanxi Weiqida that will be offset against future purchases by Aurobindo Biopharma. If the advanced funds have not been fully offset by sales to Aurobindo Biopharma, the remaining amounts are to be refunded. However, Shanxi Weiqida believes that it will make a sufficient amount of sales to Aurobindo Biopharma to offset all of the advanced funds. The agreement may be terminated by either party upon three months written notice after the advanced funds have been used or refunded.

Sales Models

Shanxi Weiqida maintains different sales and distribution models for the Pharma and Chemical Divisions. For the Pharma Division, Shanxi Weiqida sells through sales agents or its 63 sales offices throughout China. Shanxi Weiqida has signed up 10 nation-wide and 12 district-wide agents to sell and distribute its Pharma Division products, especially its over-the-counter products. These agents are generally appointed on a commission basis for a term of one to three years, and undertake the marketing, promotion and distribution of Shanxi Weiqida's products in their assigned territories. Each sales office is managed by a Sales Manager employed by Shanxi Weiqida, who is responsible for marketing, promoting and selling the division's products as well as managing sales representatives. Shanxi Weiqida has approximately 1,200 sales representatives located throughout China that are retained on a commission basis. These sales representatives pay regular site visits to pharmacy wholesalers and retailers, hospitals and distributors to conduct market research, gather opinions on products and promote Shanxi Weiqida's products.

For the Chemical Division, Shanxi Weiqida uses a direct sales model with sales made through the sales department located in Datong City. The customers for the Chemical Division are other pharmaceutical companies which will use the products for further processing and formulation.

Pricing Policy

Of the 35 pharmaceutical products produced by Shanxi Weiqida's Pharma Division, 22 are currently subject to retail price control imposed by the government administration authorities or other relevant authorities in China. Shanxi Weiqida's products from Chemical Division are not subject to retail price control and are market-priced products. The main objective of price control policy is to set an upper limit to the retail prices of pharmaceutical products in order to prevent excessive increases in the prices of pharmaceutical products.

Manufacturing and Facilities

Shanxi Weiqida's head office and manufacturing facility of the Pharma Division with a total of approximately 258,300 square feet are located in the Datong Economic and Technology Development Zone in Datong City, Shanxi Province of China. This fully-integrated facility includes a headquarters building, three production workshops (formulation drugs, sterilized bulk drugs and powder for injections) that house a total of eight production lines (four in the formulations workshop, one in the sterilized bulk drugs workshop and three in the powder for injections workshop), utility infrastructure, quality assurance and quality control and warehouse area. Shanxi Weiqida holds the land use right for this facility until

June 2047.

Shanxi Weiqida's Chemical Division is also located in Datong City. The location was the original production facility of Datong Pharmaceutical and the land use right to this facility was awarded to Shanxi Weiqida upon the bankruptcy of Datong Pharmaceutical. This facility for the Chemical Division, with a total area of approximately 818,100 square feet, houses the Clavulanic Acid production facility, power, boiler, steam and water facilities and 7-ACA production facility. The land use right for this facility expires in August 2053.

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In connection with the bankruptcy of Datong Pharmaceutical, Shanxi Weiqida has also been granted the land use right for another piece of land with an area of 129,200 square feet which is adjacent to the Chemical Division. This land is currently vacant and is reserved for future expansion. The land use right for this facility expires in August 2053.

All manufacturing facilities of Shanxi Weiqida that are required to be GMP certified, have been certified under current Chinese regulations. Shanxi Weiqida's GMP certificate for the Pharma Division facility will expire and is subject to renewal in August 2008 and the GMP certificate for the Clavulanic Acid facility of the Chemical division will expire and is subject to renewal in January 2009. The 7-ACA facility does not need to be GMP certified. The facilities of Shanxi Weiqida have been designed to meet expected production demands into the foreseeable future.

Manufacturing Arrangement. Shanxi Pude Pharmaceutical Co. Ltd., or Shanxi Pude, which is also located in Datong City, manufactures Levofloxacin as a freeze-dried injectable for Shanxi Weiqida pursuant to a non-exclusive contract manufacturing agreement. The agreement with Shanxi Pude may be terminated by either party at any time and Shanxi Weiqida is not obligated to make any purchases under the agreement. Shanxi Weiqida utilizes Shanxi Pude on an as needed basis. Shanxi Weiqida's sales from the products produced by Shanxi Pude under this agreement were \$0.6 million and \$1.1 million in 2002 and 2003, respectively, and \$ 0.47 million in the first six months of 2004 which represents 5.4%, 4.2% and 3.3% of Shanxi Weiqida's sales for 2002, 2003 and first six months of 2004 respectively. The agreement requires Shanxi Pude to manufacture product based on quality control variables and timetables supplied by Shanxi Weiqida. Shanxi Weiqida is obligated to pay Shanxi Pude for the product at the time of completion of the manufacturing process. Shanxi Pude is prohibited from selling the product. Shanxi Pude is a medium-sized pharmaceutical company with over nine years of operating history. Shanxi Weiqida is currently conducting a study to evaluate whether it is feasible to build a workshop within its existing pharmaceutical product production facility to produce Levofloxacin as a freeze-dried injectable.

Proposed Contract Manufacturing Arrangement. On June 30, 2004, Shanxi Weiqida entered into a non-binding letter of intent with an arm's-length customer to provide this customer with third party manufacturing services for the production of Abamectin, an antibiotic used in agriculture. According to the letter of intent, Shanxi Weiqida will be responsible for:

providing the land for the construction of a production facility for Abamectin, which will be designed to meet standards of the United States Food and Drug Administration. The land that will be provided is approximately 86,112 square feet of the 129,200 square feet of vacant land adjacent to the Chemical Division's manufacturing facility;

permitting the customer to build the Abamectin production facility and access the current infrastructure (such as power, water among others) of Shanxi Weiqida's adjacent manufacturing facility; and

providing operational and management services to the completed facility.

The customer will be responsible for paying all expenses related to design, construction and outfitting of the facility and has agreed to provide RMB 10 million (approximately \$1.2 million) in working capital to Shanxi Weiqida within five days after the completion of construction. Thereafter, the customer has agreed to purchase annually at least 120 tons of Abamectin product from Shanxi Weiqida on a cost plus basis. Further details of the arrangement are to be negotiated under a definitive agreement to be negotiated between the parties.

Raw Materials. Shanxi Weiqida uses many different raw materials in the manufacturing process of its pharmaceutical products. Shanxi Weiqida mainly sources its raw materials in China, but also purchases raw materials from some overseas markets. In 2003, purchases from Shanxi Weiqida's five largest suppliers, which are all suppliers of raw materials and packaging materials, accounted for approximately 49.86% of Shanxi Weiqida's total purchases, and purchases from Shanxi Weiqida's largest supplier accounted for approximately 12.73% of Shanxi Weiqida's total

purchases. In order to maintain flexibility in-sourcing quality supplies at competitive prices, Shanxi Weiqida has not entered into any supply contracts with any of its suppliers which exceed twelve months. In 2002 and 2003, Shanxi Weiqida did not experience any significant difficulties in sourcing raw materials and the

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management of Shanxi Weiqida do not anticipate that, if required, Shanxi Weiqida will face any material difficulties in sourcing its raw materials from alternative suppliers.

Research and Development

Shanxi Weiqida's research and development activities mainly focus on two objectives: the development of generic drugs, including new presentations and dosage forms of already approved generic drugs, and the improvement of product quality and production technology. In order to fulfill those objectives, the research and development department utilizes both internal and external resources, such as cooperation with universities and other research laboratories.

In 2003, Shanxi Weiqida submitted applications to SFDA for seven new products and 15 new presentations. Of these applications, approval has been received for one new product, Mezlocillin Sodium and Sulbactam Sodium, with two dosages and two new dosages for two previously approved products. The balance of the applications are still pending.

In 2004 Shanxi Weiqida has filed with SFDA 11 applications for product approval for new generic drugs, presentation or dosage, and expects to file between four and nine additional applications by the end of 2004. Of the applications filed in 2004, approvals have been received for six dosages for previously approved products.

From time to time Shanxi Weiqida has established on-going collaborations on product development and production techniques development with external research institutes such as universities and other research laboratories. Shanxi Weiqida's working relationship with Harbin Medical University, Huaxi Medical University Pharmaceutical College, Shanxi Medical University and Datong University are based on oral agreements and on an as-needed basis. Shanxi Weiqida has no long term arrangements with these universities.

Intellectual Property

Shanxi Weiqida had 15 registered trademarks and has applied for registration of another 19 trademarks in China. Shanxi Weiqida has not applied to patent any of its products, techniques or procedures.

Other than obtaining product protection from the SFDA for each of the new products developed, Shanxi Weiqida does not have any other measures to prevent any infringement of its intellectual property rights. Currently, four of Shanxi Weiqida's manufactured pharmaceutical products, is entitled to protection with which the SFDA will not issue additional drug permits other than those already issued during the protection period. The following table illustrates our products with protection period and their respective expiration dates.

<u>Product Name</u>	<u>Expiration</u>
Nimesulide Capsules	February 2005
Levofloxacin Hydrochloride for Injection	May 2006

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Sulbactam Sodium Amoxicillin Sodium for Injection
Mezlocillin Sodium Sulbactam Sodium for Injection

April 2006
December 2009

Competition

Pharma Division

The world market for anti-infectious drugs is highly competitive and producers in this market include some of the largest pharmaceutical companies, including Pfizer Inc., GlaxoSmithKline, Schering-Plough, Abbott Laboratories and Sandoz.

There are numerous pharmaceutical manufacturers of anti-infectious drugs in China. The top five producers are Harbin Pharmaceutical Group Holding Co., Ltd., Shijiazhuang Pharmaceutical Group Co., Ltd., Shandong Reyoung Pharmaceutical Co., Ltd., Southwest Pharmaceutical Co., Ltd. and Jiangxi Dongfeng Pharmaceutical Co., Ltd. Except for Shandong Reyoung, these companies or their affiliates are all publicly traded companies listed on

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the Shanghai or Hong Kong stock exchanges. Most of these competitors are substantially larger than Shanxi Weiqida as they were all state-owned enterprises before becoming public and some of them are still partially owned by the Chinese government or, as is the case with Shandong Reyoung, are still state-owned enterprises. These larger competitors may enjoy the benefits of economies and therefore be able to afford to sell competing products at lower prices than Shanxi Weiqida. This will have an adverse effect on Shanxi Weiqida's profitability.

Chemical Division

Clavulanic Acid. The world production of Clavulanic Acid is dominated by manufacturers located in Europe. Among them, Lek Pharmaceutical and Chemical Company of Slovenia, SmithKline Beecham Pharmaceuticals of Britain, Deva Holding A.S. of Turkey, Amifarma S.L. of Spain and DSM of the Netherlands, are the leading manufacturers of Clavulanic Acid.

There are currently only two manufacturers of bulk Clavulanic Acid in China, Shanxi Weiqida and Jiangxi Pharmaceutical. However, before the commencement of production by Shanxi Weiqida's Clavulanic Acid production facility, there was no commercial scale production of Clavulanic Acid in China. In addition to the current Chinese producers, SFDA has granted approval for the leading European producers to export Clavulanic Acid to the Chinese market.

7-ACA

Production of 7-ACA is concentrated among a few European and Chinese manufacturers. Shanxi Weiqida will face significant competition from these companies. Shanxi Weiqida's competitors include Antibioticos, a subsidiary of the Fidia Group of Italy and Biochemie, a subsidiary of Novartis of Switzerland. In addition, in the Chinese market there are four leading Chinese manufacturers: China Pharmaceutical, Shangdong Lukang Pharmaceutical, Fuzhou Pharmaceutical and Harbin Pharmaceutical. Shanxi Weiqida's 7-ACA production facility commenced pilot production on July 1, 2004.

Human Resources

As of June 30, 2004, Shanxi Weiqida had approximately 1,600 full-time employees with approximately 1,200 sales representatives retained on a contract basis. However, Shanxi Weiqida is expected to add an additional 150 full-time employees by the end of 2004. Of these 1,750 full time employees, 58 are in senior and middle management position, 110 are clerical support staff and the remaining 1,582 are or will be production and support staff. The 1,200 sales representatives operate out of 63 sales offices located throughout China. The sales representatives are retained on a contract basis and paid solely on a commission basis according to their sales performance.

Shanxi Weiqida has certain placement obligations in respect of approximately 350 former employees of Datong Pharmaceutical under the agreement entered into to acquire the right to use the land that houses Shanxi Weiqida's chemical manufacturing facilities and certain adjacent property. See History and Development of Oriental Wave and Shanxi Weiqida. These rights were granted to Shanxi Weiqida upon the bankruptcy of Datong Pharmaceutical in exchange for the assumption of certain employee liabilities of Datong Pharmaceutical. The agreement requires Shanxi Weiqida to pay certain minimum wages and health care costs for former employees of Datong Pharmaceutical until the date of their employment, retirement or death, whichever occurs first. The total amount of the liabilities assumed on the closing date was estimated to be approximately \$8.9 million. As of June 30, 2004, Oriental Wave had employed 647 former employees and 144 former employees had retired. Shanxi Weiqida estimates its costs for the remaining 260 employees to be approximately \$1.13 million.

No key employee of Oriental Wave or its subsidiary has signed any employment contract. To Oriental Wave's knowledge no key employee of Oriental Wave or its subsidiary has any plan to leave the company in the near future or after the completion of the proposed acquisition. Shanxi Weiqida's current employees are represented by a labor union and management considers the relationships with its employees to be good.

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Legal Proceedings

Neither Oriental Wave nor Shanxi Weiqida is subject to any legal proceedings.

Dragon After the Acquisition of Oriental Wave

After the close of the acquisition, Dragon will continue to be headquartered in Vancouver, British Columbia, Canada and its operations will be organized into three business units, a Pharma Division, a Biotech Division and a Chemical Division. Management of each of these divisions will be unified and located in a new corporate office to be established in Beijing, China. The new Beijing office will also be responsible for sales and marketing activities in China and will include a research and development center. Beijing is being chosen as the location for this new office as it is centrally located (there is easy access to both the Datong and Nanjing facilities), is closer to the government and regulatory affairs offices that oversee the drug approval and the facility audit/approval process and locally there is a good supply of research and development professionals.

The Pharma Division, with its production base in Datong, will continue its current business strategies to focus on the expansion and development of the Chinese market by managing its product portfolio. The Biotech Division, with its production base located in Nanjing, will continue to manage its Erythropoietin (EPO) business for the Chinese and International market. The Chemical Division, with its production base located in Datong, will continue to manage the production and sales and marketing of Clavulanic Acid, 7-ACA, and certain sterilized bulk drugs for both the Chinese and international markets.

The following table shows Dragon's corporate structure after the acquisition of Oriental Wave, including the jurisdiction of incorporation of each subsidiary:

⁽¹⁾ Dragon may complete the acquisition in two stages. See The Share Purchase Agreement Consideration to be Received by the Shareholders of Oriental Wave.

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- (2) Provides head office functions in Vancouver, British Columbia including finance and compliance, regulatory affairs, business development and investor relations.
- (3) Provides international sales and marketing functions.

Product Strategy

Dragon's key products after the acquisition will include generic pharmaceutical products, in the prescription and over-the-counter categories from the Pharma Division, bio-generic drugs from the Biotech Division as well as bulk pharmaceutical chemical, including Active Pharmaceutical Ingredient and bulk drugs from the Chemical Division.

Adjusting Product Mix from the Portfolio of Product Licenses and Permits. Dragon, after the acquisition, will have a portfolio of 290 product licenses and permits under the Pharma Division in eight presentation formats, namely tablets, granules, suppositories, capsules, powder, powder for injection, bulk pharmaceutical chemicals and injections. These products are all generic products and, therefore, Dragon does not have any products that are currently patented or pending patent approval in China or other countries. The portfolio of 290 product licenses and permits will allow Dragon to adjust the product mix according to market and competitive conditions. Dragon will undertake a selection process to decide which of its remaining licenses, if any, will be commercialized, and to determine the timeframe for such commercialization.

Increasing the revenue base of the Pharma Division by increasing the sales derived from the over-the-counter products. Current key products are mainly anti-infectious drugs. Shanxi Weiqida operates in both the over-the-counter and the prescription pharmaceutical product market segments with the introduction of the over-the-counter products only in late 2003. In 2003, approximately 10% of the Pharma Division's sales were from over-the-counter products and 90% were from prescription products. While over-the-counter products carry a slightly lower gross margin than prescription products, sales volume tends to be greater than prescription products. By increasing production of over-the-counter products through the greater utilization of our existing capacity, we expect to be able to drive down the per unit cost and increase margins. In addition, the target market of over-the-counter products is the mass population which will enable us to build up brand equity in the market that will help to promote Shanxi Weiqida's other products. As a result, we intend to increase our revenue base by increasing the sales contribution of over-the-counter products to approximately 20% of 2004 divisional sales with a long-term target of 30% of the division's sales.

Introducing three to five new generic products, dosages or presentations every year in the Chinese market. In 2003, Shanxi Weiqida received four product approvals from the SFDA. Through in-house development and through external collaborations with research institutions, Shanxi Weiqida is targeting to introduce three to five new dosages or presentations of previously approved drugs, and perhaps new generic drugs, every year in the Chinese market.

Finalizing the development of a new cell-line and proprietary process for the European market with Dragon's research partner in Europe. Dragon has entered into a development and manufacturing agreement with Polymun Scientific Immunbiologische Forschung GmbH, or Polymun Scientific, to develop a new cell line and production process for a newly developed EPO product, which is expected to be commercialized in the European Union market upon the expiration of the relevant patents. The lead purification experts from our subsidiary in Nanjing are currently participating in the late stages of development and will assist in the scale-up of the selected technology in the coming months. Subsequently, Polymun Scientific will produce sizeable batches of EPO for Dragon in its GMP facility located in Vienna, Austria for future clinical trials in Europe. Polymun Scientific and Dragon intend to complete the preliminary studies for a European regulatory filing by the first quarter of 2005.

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The agreement with Polymun Scientific has an initial term of seven years from the time of the developed EPO product and automatically renews for succession one year terms thereafter unless terminated by either party prior to renewal. Dragon is granted a royalty-bearing license to the developed product at various discount prices depending on the amount of the product to be purchased by Dragon each year. The agreement requires Dragon to pay Polymun an aggregate of approximately \$615,000 for its development activities upon achievement of certain

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milestones. As of August 19, 2004, approximately \$246,000 has been paid by Dragon and the remaining obligation is approximately \$369,000. The product will be provided exclusively to Dragon for the first three years after development and Polymun Scientific has agreed not to compete with Dragon. Dragon may also obtain a royalty-free license to the technology for approximately \$12.3 million or by paying approximately \$1.85 million and a percentage of its net sales of the product.

Continued development of the slow-release formulation of EPO. In April 2001, Dragon entered into a collaboration agreement with Transworld Pharmaceuticals and Toray Trading Corp. to develop a slow-release formulation for EPO. If the slow-release EPO is approved and commercialized, we will have exclusive world-wide manufacturing rights as well as exclusive marketing rights of the slow-release EPO to Asia. Currently, the slow-release EPO is in pre-clinical trials and we expect to proceed to clinical trials.

Manufacturing

Dragon, after the acquisition, will have four manufacturing facilities in China. Production facilities for the Pharma Division and Chemical Division are located in Datong while the production facility for the Biotech Division is located in Nanjing. The following table summarizes our manufacturing facilities after the acquisition of Oriental Wave:

Workshop	Production Lines	Form of Products	Estimated Annual Production Capacity	GMP Certification	Approximate Production Level in 2003
Pharma Division					
Powder for injection	Penicillin	Powder for injection	80 million vials	2003	40 million vials
	Non-Penicillin	Powder for injection		2003	
	Cephalosporins	Powder for injection		2003	
Formulation	Penicillins and Non-Penicillins	Tablet	520 million tablets	2003	600 million
	Penicillins and Non-penicillins	Capsules	90 million capsules	2003	
	Penicillins and Non-penicillins	Granules	47 million sachets	2003	2 million sachets
	Penicillins and Non-penicillins	Suppositories	10 million	2003	0.95 million
Sterilized Bulk Drug	Metronidazole Disodium Phosphate, Fosfomycin Sodium, Fosfomycin Trometamol	Bulk	180 tons	2003	41.3 Tons
Biotech Division					
Erythropoietin	EPO	Bulk & Injection	72 grams bulk or 5.4 million vials (2000 IU) ⁽¹⁾	2000	30 gram bulk or 2.25 million vials (2000 IU)
Chemical Division					
Clavulanic Acid		Bulk	30 tons	2004	n.a.
7-ACA		Bulk	400 tons ⁽²⁾	n.a.	n.a.

- (1) The facility doubled its capacity in late 2003.
- (2) Pilot production commenced on July 1, 2004.

After the acquisition of Oriental Wave, we will review the manufacturing capabilities of the combined company to ensure that it meets our needs in the most efficient manner. We believe that there is sufficient

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manufacturing capacity to meet the near-term (two to three year) needs of the combined company. In order to take advantage of a growing trend of pharmaceutical companies in developed countries purchasing bulk pharmaceutical chemicals from producers in developing countries such as India and China, we are considering up-grading the GMP status of the manufacturing facilities of our Chemical Division within the next three years. Up-grading this facility to meet the GMP standards of the U.S. Food and Drug Administration and European Medicines Agency, or EMEA, will permit us to export our bulk pharmaceutical chemical products to the European and U.S. markets.

Sales Strategy

Dragon, after the acquisition of Oriental Wave, will divide up its sales target market into two segments: China and International. On a pro forma basis of the combined company, in 2003 approximately 95% of sales would have come from the Chinese market and the remaining 5% from the international market. It is anticipated that the proportion of sales from the international market will increase with the development of Dragon's international businesses.

With respect to Dragon's three divisions after the acquisition, on a pro forma basis for the first six months of 2004 (the only period that the Chemical Division has been in operation) 74% of sales would have come from the Pharma Division, 15% of sales would have come from the Chemical Division and 11% of sales would have come from the Biotech Division. It is anticipated that the percentage of sales from the Biotech Division and Chemical Division will increase with the continued market expansion of the EPO products and Chemical Division products.

Chinese Market

After the acquisition, Dragon will combine its sales models with those of Shanxi Weiqida to sell Dragon's products in China. These models include the use of regional sales offices, nation-wide and district-wide distributors and direct sales.

Regional Sales Offices. Dragon currently has 17 sales offices in China with 11 sales managers and 45 sales representatives and Shanxi Weiqida has 63 sales offices with 63 sales managers and over 1,200 sales representatives. After the acquisition, this sales and distribution network in China will be reorganized to unify the sales infrastructure. In provinces or market areas where Dragon currently does not provide adequate coverage, Shanxi Weiqida sales offices will assume the responsibilities of selling products from both the Pharma and Biotech Divisions. In provinces or market area where both companies have the sales network, resources will be re-allocated and re-assessed to merge the two sales teams together to maximize the benefit of increasing sales and to minimize expenses.

After the acquisition, we expect to maintain at least two sales offices in each of the 31 provinces or regions of China, as each sales office carries different products for their own assigned territories. Each sales office will continue to be managed by a Sales Manager employed by Dragon, who is responsible for the marketing, promoting and selling of Dragon's products as well as managing the sales representatives. Dragon will have over 1,200 sales representatives throughout the country who are retained on a commission basis and whose major duties are to promote and sell our products by regular site visits to the pharmacy wholesalers and retailers, hospitals and distributors.

In addition, Dragon plans to unify the sales process including promotion strategies, sales training, contract management, distribution and collection management in order to minimize sales and marketing costs.

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Nation-wide Agent and District-wide Agent to Sell Over-The-Counter Products of the Pharma Division. After the acquisition, we intend to maintain Shanxi Weiqida's network of 10 nation-wide and 12 district-wide agents to sell and distribute predominantly over-the-counter products of the Pharma Division. The marketing agents are generally appointed on a commission basis, for a term of one to three years. These marketing agents undertake the marketing, promotion and distribution of our products to their assigned territories.

Company's Corporate Office in Beijing to Market Products from the Chemical Division. The target customers for the products of the Chemical Division are other pharmaceutical companies who use the products for

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further processing and formulation. The customers are larger in terms of their size and demands and Shanxi Weiqida's chemical products are sold in bulk. For this market, a direct sales model is used, which is different from the sales of products from the Pharma Division. Shanxi Weiqida currently sells the Chemical Division's products directly from the office in Datong, but it is anticipated that this sales team will be relocated to the new Beijing corporate office.

For the Chinese market, the key sales strategies of Dragon after the acquisition, will include:

increasing market share of Dragon's EPO products with the expanded sales network in China;

increasing sales contribution of over-the-counter products to approximately 20% of the Pharma Division in 2004 and eventually 30% of the divisional sales in the long run;

expanding the customer base of the Chemical products in China by participating trade shows and actively approaching customers who are using imported products.

International Market

The International Sales and Marketing team is located in Dragon's office in Vancouver, Canada. We plan to sell Dragon's Pharma and Biotech products to the international market, outside of China, utilizing the network of licensees developed originally for Dragon's EPO products. As of June 1, 2004, Dragon has entered into licensing arrangement with 11 licensees covering over 135 countries around the world.

In addition, Dragon plans to sell the Chemical Division's products directly to other pharmaceutical companies for processing into final products. In March 2004, Shanxi Weiqida entered into a three-year long term supply agreement with Aurobindo Biopharma to supply specified amounts of Clavulanic Acid and 7-ACA. With this long-term supply agreement, Aurobindo Biopharma has agreed to purchase approximately 55% of the expected production volume of the Chemical Division during the three-year term of the agreement.

For the international market, key sales strategies of Dragon, after the transaction, include:

further expansion of EPO among developing countries by obtaining additional market approval as well as actively developing the bulk EPO and EPO derivative market segment;

finalizing the market entry of EPO into the European Union market to ensure a timely entrance of the market;

initial market development among developing countries for the Pharma Division's products; and

initial market development among other developed countries for Company's Chemical products upon the upgrade of the facility to FDA/EMEA standard.

Research & Development

Dragon, after the acquisition, will continue to rely on a combination of in-house resources as well as collaboration with other Chinese and international pharmaceutical companies or research institutions to perform the research and development function.

In-house resources. A new research center will be set up in the corporate office in Beijing and staffed by research and development professionals. Dragon's research and development activities will be mainly focused on two objectives, (1) the development of new generic drugs or new presentation and dosage form of the already approved generic drugs and (2) the improvement of existing product quality and production technology which include the upgrade of the production facilities to meet international standards.

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External Collaboration. Dragon has established joint research collaboration with international as well as Chinese pharmaceutical companies and research institutions. Currently, Dragon has on-going development projects with Transworld Pharmaceuticals and Renapharm on the development of slow-release EPO and with Polymun Scientific on a new EPO cell-line for the European market.

Human Resources

After the acquisition, Dragon will have a total of approximately 1,850 employees world-wide representing such diverse disciplines as biotech, pharmaceutical, chemical, research, manufacturing, mechanical, marketing, finance and business management. In addition to its employees, Dragon will also have a sales force of 1,200 representatives retained on a contract basis. Our employees are not represented by any labor union and we believe our relationships with our employees are excellent.

We anticipate that the total number of employees will remain at around 1,850 but the functional mix will be changed to fulfill the needs of Dragon. On one hand, there will be some staff reductions in certain functions due to integration of activities and the rationalization of our operations following the acquisition. On the other hand, the operations of the 7-ACA facility and other projects such as the third-party manufacturing of Abamectin will likely increase the number of employees employed in our manufacturing operations.

The majority of our senior management team own shares or options to purchase our shares. To encourage our management team to achieve our medium and long term goals, we will continue to grant them opportunities to increase their ownership in Dragon through our share incentive plans.

Liquidity and Capital Resources

As of June 30, 2004, we had cash, cash equivalents and short-term investments totaling \$3.3 million on a pro forma basis reflecting the acquisition of Oriental Wave. With the increased scope of businesses of Dragon as a result of the acquisition, we expect to be profitable and therefore, generating positive operating cash flow. On a pro forma basis, we had \$29.7 million sales and \$5.6 million net profit in 2003. However, those financials only reflects the operating results of the Pharma Division and Biotech Division and may not represent future operations. Starting January 1, 2004, the Clavulanic Acid production facility of the Chemical Division has been in operations. Another production facility for the Chemical Division, 7-ACA started its pilot production on July 1, 2004. These two facilities are expected to bring additional sales and profit to Dragon.

The manufacturing facilities of the Pharma and Chemical Divisions are new with additional unused production capacity. We do not expect significant capital expenditure required for our businesses in the next two to three years. Therefore, we believe that the cash outflow from investing activities will be significantly lower than the 2003 pro forma number which reflected investments made in the Chemical Division.

As of June 30, 2004, Shanxi Weiqida has short-term loans of \$12.9 million and accounts payable and other payable and accrued expenses of \$21.6 million. After the acquisition, Dragon expects that it can meet these obligations by the renewal of certain term loans at comparable rates and from the positive net cash flow generated from expanded operations and investment activities following the acquisition. However, in order to ensure that financial resources are available when needed, depending on the market conditions, we may choose to raise additional capital within the next three years to repay the necessary loan obligations as well as to fund any continued expansion of our business and operations, including any acquisition opportunities that might present themselves.

Oriental Wave has recorded \$1,133,154 as long term retirement benefits which are related to the acquisition of Datong Pharmaceutical and the assumption of obligations relating to certain minimum wages and health care costs until the earlier of its employees' date of employment, retirement or death. Shanxi Weiqida expects to rehire or retire the remaining former employees of Datong Pharmaceutical. As of June 30, 2004, approximately 260 former employees of Datong Pharmaceutical remained as the obligation of Oriental Wave out of which 150 are expected to be rehired by the end of 2004 and the remaining 90 are expected to rehire within two to three years.

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Shanxi Weiqida has also incurred debt to related party (Shanxi Tongling Pharmaceutical Co., Ltd.) of \$5.21 million. This amount will be reduced before the closing of the acquisition to \$2.8 million. While this debt has set repayment dates, we believe that, if necessary, Dragon will be able to negotiate an extension of the repayment dates.

As of June 30, 2004, Shanxi Weiqida had registered capital of \$19,205,116 of which \$13,977,504 had been contributed as of June 30, 2004, with the balance of \$5,227,612 of registered capital to be fully fulfilled by December 2008. We expect this outstanding registered capital requirement will be fulfilled within the required timeframe by the conversion of approximately \$2.4 million (RMB 20 million) of the amount due to Shanxi Tongling Pharmaceutical (a closing condition of the Share Purchase Agreement) and by transfers to this account from Shanxi Weiqida's undistributed profits and reserves generated in the coming years.

Directors, Management, Promoters and Control Persons After the Acquisition of Oriental Wave

On the completion of the acquisition, Oriental Wave will operate as a wholly-owned subsidiary of Dragon. Under the Share Purchase Agreement, Dragon has agreed that Mr. Yanlin Han, Mr. Zhanguo Weng and Ms. Xuemei Liu, will be appointed directors of Dragon. Mr. Han is Chairman of the board of Oriental Wave, Mr. Weng is the General Manager of Shanxi Weiqida and Ms. Liu is a Director of Oriental Wave. In addition, Mr. Han will be appointed as the Chief Executive Officer of Dragon and Dr. Wick will be appointed as the President of Dragon.

For more information regarding Messrs. Sun, Wick, Han, Weng and Ms. Liu, please see Nominees to the Board and Proposed Nominees of Oriental Wave to the Board under Proposal 3.

Finally, as a result of the transaction, Messrs. Han and Weng and Ms. Liu will collectively own 68.35% of our outstanding shares as calculated on a fully diluted basis. As a result of their ownership, Messrs. Han and Weng and Ms. Liu will have substantial control over certain corporate matters including the election of our board of directors and the approval of significant corporation transactions without seeking the approval from other shareholders.

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**PROPOSAL 2 - AMENDMENT TO DRAGON S
CERTIFICATE OF INCORPORATION TO
INCREASE THE NUMBER OF AUTHORIZED SHARES**

The board of directors has approved and recommends that the shareholders approve an amendment to our Certificate of Incorporation to increase the total number of shares of common stock that we have authority to issue from 50,000,000 to 200,000,000.

The primary purpose of this amendment to our Certificate of Incorporation is to make available for issuance by us additional shares of common stock so that we may complete the share exchange with Oriental Wave shareholders and to have a sufficient number of authorized and unissued shares of common stock to maintain flexibility in our corporate planning. Under the terms of our purchase agreement with Oriental Wave and the shareholders of Oriental Wave, to complete the acquisition we will issue that number of shares of common stock which is equal to 68.35% of our issued and outstanding shares on a fully-diluted basis. Based on the current number of shares of common stock outstanding and the number of shares underlying our convertible securities, we estimate that we will need to issue approximately 51 million shares of our common stock to complete the share exchange. Without this amendment to our Certificate of Incorporation, we will not have a sufficient number of authorized but unissued shares.

In addition, our board of directors believes that the availability of additional authorized but unissued shares will provide us with the flexibility to issue shares for other corporate purposes that may be identified in the future, such as to raise capital through the issuance of securities, to make acquisitions using securities as consideration, to issue securities in connection with strategic relationships with other companies, and to adopt additional employee benefit plans or reserve additional shares for issuance under such plans. No additional action or authorization by our shareholders would be necessary prior to the issuance of such additional shares, unless required by applicable law or the rules of any stock exchange or national securities association trading system on which our common stock is then listed or quoted. While we believe that the proposed increase in the authorized number of shares of common stock will make available a sufficient number of shares for one or more of such previously mentioned purposes or otherwise, we may seek further increases in the authorized shares from time to time in the future as considered appropriate by our board of directors. Other than pursuant to the Share Purchase Agreement, we have no plan, understandings or arrangements to issue additional shares of common stock.

If this proposal 2 is adopted by the shareholders, Article III of the Certificate of Incorporation will be amended to read as follows:

The maximum number of shares of capital stock that this corporation is authorized to have outstanding at any time is Two Hundred Million (200,000,000) shares of common stock, having a par value of \$.001 per share.

The approval and adoption of the proposed amendment to our Certificate of Incorporation requires the affirmative vote of the holders of more than 50% of the outstanding shares of common stock.

If the acquisition of Oriental Wave as set out in proposal 1 is approved but this proposal 2 is not approved by shareholders, then we intend to complete the acquisition in two stages.

Recommendation of the Board

The board of directors recommends that the shareholders vote FOR the amendment to our certificate of incorporation to increase the number of authorized shares of common stock.

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PROPOSAL 3 - ELECTION OF DIRECTORS

Our Certificate of Incorporation provides that the board of directors shall consist of between one and five members with the specific number determined by board resolution. The board was previously set at five members. In the Share Purchase Agreement with Oriental Wave we agreed to appoint three nominees of Oriental Wave to our board of directors. In order to fulfill this condition, the board has nominated only two of our current directors for election at the meeting and concurrently will reduce the size of the board to two directors. The board has nominated Messrs. Sun and Wick as nominees for election as directors. Messrs. Cai, Liu and Yuen were not nominated. After completion of the acquisition of Oriental Wave, the board will increase the number of directors to five and the three nominees of Oriental Wave will then be appointed to the board to serve until the next annual meeting. If the transaction with Oriental Wave is, for any reason, not completed, the two nominees, if elected, have indicated that they will appoint at least three additional directors to the board (who will be the three current members not nominated for re-election). The term of office for the directors elected at this meeting will expire at the next annual meeting of shareholders to be held in 2005 or until their successors are duly appointed.

Directors are elected by a plurality (excess of votes cast over opposing nominees) of the votes present in person or represented by proxy and entitled to vote at the meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the two nominees. If any nominee is unable or declines to serve as a director at the time of the annual meeting, the proxies will be voted for any nominee designated by the present board to fill the vacancy. We have no reason to believe that any nominee, if elected, will be unable to serve as a director. Each director has agreed to serve as a director, if elected.

Nominees to the Board

Set forth below is biographical information for each person nominated for election including their age, principal occupation or employment for the last five years, and the year the director was first elected.

Dr. Alexander Wick, Director since September 1998

Dr. Wick, age 66, has been our President since September 2002 and a Director since September 1998. Dr. Wick holds a doctorate degree in synthetic organic chemistry from the Swiss Federal Institute of Technology and has completed post-doctoral studies at Harvard University. He has had leading positions in the pharmaceutical research departments of F. Hoffmann-La Roche in the United States and Switzerland and Synthelabo in France (Director of Chemical Research and Development) for over 25 years in the field of antibiotics, prostaglandin, vitamins, cardiovascular, CNS and AIDS. Prior to joining Dragon, Dr. Wick founded a fine chemicals company called Sylachim S.A., a 100% subsidiary of Synthelabo, active in chemical intermediates and APIs and was its President until its acquisition by the German conglomerate mg Technologies (Dynamit-Nobel GmbH) in 2001. Dr. Wick is also a board member of STC, a joint venture between Synthelabs (now Sanofi-Avantis), Tanabe of Japan, and Herbonis, a Swiss start-up company involved in extraction of medicinally useful components from plants.

Dr. Yiu Kwong Sun, Director since November 1999

Dr. Sun, age 60, is one of our Directors. Dr. Sun graduated from the University of Hong Kong Faculty of Medicine in 1967. He is a Founding Fellow of the Hong Kong College of Family Physicians and a Fellow of the Hong Kong Academy of Medicine. Since 1999, he has served as the Chairman of the Dr. Sun Medical Center Limited, which has been operating a network of medical centers in Hong Kong and China for the past

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20 years. He is also Chairman of the Pacific Health Services Limited (incorporated in Hong Kong) and the Director of Yukon Health Enterprises Limited (incorporated in the British Virgin Islands) and Paragon Hotel Finance Company LDC (incorporated in the Cayman Islands). He has been a Member of the Committee of Management of the Dr. Cheng Yu Tung Fellowships of the University of Hong Kong Faculty of Medicine since 1997 and a Member of the Corporate Advisory Board of Venturepharm Laboratories Limited (incorporated in the Cayman Islands) since 2003. Dr. Sun served on our audit committee from April 2, 2003 to August 2004.

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Recommendation of the Board

The Board of Directors recommends that the shareholders vote FOR Messrs. Wick and Sun, the nominees listed above.

Proposed Nominees of Oriental Wave to the Board

Following completion of our share exchange with Oriental Wave, the board will expand to five members and three persons designated by the shareholders of Oriental Wave will be appointed to the board. We have been advised that the nominees to the board will be the three sole shareholders of Oriental Wave, namely Yanlin Han, Zhanguo Weng and Xuemei Liu. The biography for at least the past five years for each of these persons is as follows:

Yanlin Han

Mr. Yanlin Han, age 41, is currently the Chairman of the Board of Oriental Wave, responsible for the overall strategic planning and direction of Oriental Wave. Shanxi Weiqida and Oriental Wave were founded by Mr. Han in January, 2002. Mr. Han has over 20 years of experience in the pharmaceutical industry. Mr. Han is also the Chairman of the Board for Shanxi Tongling Pharmaceutical Company since 1994 and Aurobindo Tongling (Datong) Pharmaceutical Company since 2000. Mr. Han also serves as the Vice-President of Shanxi Province Foreign Investment Enterprise Association and Vice-President of Datong City Trade Council. Mr. Han graduated from Shanxi Institute of Economic Management in 1986.

Zhanguo Weng

Mr. Zhanguo Weng, age 50, is currently a Director and the General Manager of Oriental Wave, responsible for the overall daily operations of Shanxi Weiqida. Mr. Weng has over 25 years of experience in pharmaceutical industry including being the General Manager for Shanxi Tongzhen Pharmaceutical Co. Ltd. from August 1997 to January 2002 and Superintendent for Datong No. 2 Pharmaceutical Factory from June 1992 to August 1997. He graduated from the Business Administration faculty of Shanxi Broadcasting University in 1986 and he has also participated in the Senior Program of MBA (Pharmaceutical Line) of People's University of China for two years.

Xuemei Liu

Ms. Xuemei Liu, age 35, is a Director of Oriental Wave. Ms. Liu is currently the Chairman of Beijing Yongfeng Industrial Group Company Ltd. which engages in a wide range of investment projects in real estate development, coal trading and media and publishing industry. Prior to her present position as Chairman of Beijing Yongfeng Industrial Group, Ms. Liu was the vice general manager of Beijing Chemical Baifeng Investment Corporation Futures Broker Company from 1996 to 1999. Ms. Liu graduated from Beijing University with a Bachelor degree in 1996 and graduated from the Graduate School of the Chinese Academy of Social Sciences with a Master degree in 1998.

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Each of Messrs. Han and Weng and Ms. Liu have consented to be named a proposed nominee to Dragon's board assuming the Share Purchase Agreement is consummated.

Additional Directors if Acquisition is not Completed

If the share exchange with Oriental Wave is not completed and the nominees proposed by Oriental Wave for appointment to our board are not appointed, then the two nominees for election at the meeting, Drs. Wick and Sun, have indicated that they intend to re-appoint the three current board members not standing for re-election, Drs. Cai and Liu and Mr. Yuen, to our board. The biography for at least the past five years for each of these persons is as follows.

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Dr. Ken Z. Cai, Director since July 1998

Dr. Cai, 38 is a Director of Dragon. Dr. Cai has a Ph.D in Mineral Economics from Queen's University in Kingston, Ontario, as well as 18 years of experience in mining, public company administration and financing. Since February 1996, he has been a Director and the President and Chief Executive Officer of Minco Mining and Metals Corporation a Toronto Stock Exchange-listed company, which is also registered under the Exchange Act of 1934, involved in mining exploration and development in China. Dr. Cai has extensive experience in conducting business in China for the past 17 years. Dr. Cai served as Chief Financial Officer from September 1998 to March 2001.

Dr. Longbin Liu, M.D., Director since September 1998

Dr. Liu, 40 is a Director of Dragon. He has 17 years of biotechnology experience in North America, Japan and China, most recently as an Assistant Professor of Medicine in the Division of Cardiovascular Medicine of the University of Massachusetts Medical Centre where he had served since 1995, before joining Dragon in September 1998. Dr. Liu earned his medical degree from Hunan Medical University in 1983. Dr. Liu was the President and Chief Executive Officer of Dragon from September 1998 until he resigned from those positions in September 2002.

Mr. Philip Pak Yin Yuen, Director since November 1999

Mr. Yuen, 67, is a Director of Dragon. Mr. Yuen has been a legal practitioner in Hong Kong since graduating from law school in London, England in 1961. In 1965, he established the law firm of Yung, Yu, Yuen and Co. and is now the principal partner of the firm. Mr. Yuen has over 30 years experience in the legal field and has been a director of several large listed companies in various industries. He is a director of the Association of China-appointed Attesting Officers Limited in Hong Kong, a standing committee member of the Chinese General Chamber of Commerce in Hong Kong, a member of the National Committee of the Chinese People Political Consultative Conference and an arbitrator for the China International Economic and Trade Arbitration Commission. Mr. Yuen served on the audit committee from December 17, 2001 to August 2004.

Information Concerning Board Committees and Meetings

Our board of directors held a total of four meetings during 2003. No director during our fiscal year ended December 31, 2003 attended fewer than 75% of (i) the total number of meetings of the board of directors and (ii) the total number of meetings held by all committees of the board on which any director served.

We do not have a formal policy regarding the attendance of our directors at annual or special meetings of shareholders, but we encourage directors to attend such meetings. All of our directors attended the last annual meeting of shareholders.

We do not have a nominating committee of the board and the board believes it is appropriate not to have such a committee as a result of the ability of the board, as a whole, to provide similar functions as to those that would otherwise be provided by a nominating committee. After completion of the share exchange with Oriental Wave the board may consider creating a nominating committee prior to the 2005 annual

meeting.

All of our directors participate in the consideration of director nominees. Candidates may come to the board's attention through current directors, management, shareholders or other persons. Candidates are evaluated at regular or special meetings of the board and may be considered at any point during the year. The board may take such measures that it considers appropriate in connection with its evaluation of a candidate, including candidate interviews, inquiry of the person recommending the candidate, engagement of an outside search firm to gather additional information, or reliance on the knowledge of the members of the board or management.

We do not have a policy with regard to the consideration of any director candidates recommended by security holders. However, the board will review correspondence and other communications it receives from security holders and, therefore, is of the view that it is appropriate for us not to have such a policy. The board will consider candidates recommended by security holders and will do so upon their receipt of information that includes

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the candidates name and qualifications. The information can be delivered to us as provided below in the section entitled *Contacting Our Board of Directors* .

The audit committee of the board of directors held a total of three meetings during 2003. Mr. Philip Yuen Pak Yin and Dr. Yin Kwong Sun served as members of the audit committee. In order to assist the audit committee and to more effectively communicate the purpose and functions of the audit committee to the board, management, employees and shareholders, the audit committee has adopted an audit committee charter.

In discharging its duties, the audit committee performs the following functions, among others: (i) reviews and approves the scope of the annual audit, non-audit services to be performed by the independent accountants and the independent accountants' audit and non-audit fees; (ii) appoints and, as appropriate, replaces the independent auditors, pre-approves all audit and non-audit services of the independent accountants and assesses the qualifications and independence of the independent accountants; (iii) reviews the performance of our internal audit function, our auditing, accounting and financial reporting procedures and independent accountants; (iv) reviews the general scope of our accounting, financial reporting, annual audit and internal audit programs and matters relating to internal control systems; (v) monitors our compliance with related legal and regulatory requirements; (vi) retains, when necessary and appropriate, independent legal, accounting or other advisors, (vii) meets independently with our independent accountants and senior management; (viii) reviews and discusses with management periodic and annual reports prepared by us for filings with the Securities and Exchange Commission, including making a recommendation to our board of directors that the audited financial statements be included in our annual report on Form 10-KSB filed with the Securities and Exchange Commission; and (ix) reviews the results of the annual audit and interim financial statements, auditor independence issues and the adequacy of the written audit committee charter adopted by our board of directors. A report of the audit committee for our fiscal year ended December 31, 2003 is included below in the section entitled *Audit Committee Report*.

Audit Committee Report

This section will not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement/prospectus into any other filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this information by reference, and will not otherwise be deemed filed under such Acts.

The audit committee oversees the financial reporting process for us on behalf of the board of directors. In fulfilling its oversight responsibilities, the audit committee reviewed the annual financial statements included in the annual report filed with the Securities and Exchange Commission as well as the unaudited financial statements filed with our quarterly reports.

In accordance with Statements on Accounting Standards (SAS) No. 61, discussions were held with management and the independent auditors regarding the acceptability and the quality of the accounting principles used in the reports. These discussions included the clarity of the disclosures made therein, the underlying estimates and assumptions used in the financial reporting, and the reasonableness of the significant judgments and management decisions made in developing the financial statements. In addition, the audit committee has discussed with the independent auditors their independence from us and our management, including the matters in the written disclosures required by Independence Standards Board Standard No. 1. (Independence Discussions with Audit Committee)

The audit committee has also met and discussed with our management, and our independent auditors, issues related to the overall scope and objectives of the audits conducted, the internal controls used by us, and the selection of our independent auditors. In addition, the audit committee discussed with the independent auditors, with and without management present, the specific results of audit investigations and examinations and the auditor's judgments regarding any and all of the above issues.

Pursuant to the reviews and discussions described above, the audit committee recommended to our board of directors that the audited financial statements be included in our annual report on Form 10-KSB for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission.

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By the 2003 Audit Committee

Mr. Philip Yuen Pak Yiu Dr. Yiu Kwong Sun.

On August 4, 2004, Mr. Yuen resigned as a member of the audit committee, leaving Dr. Sun as the sole member. In light of the important function of the audit committee, the board did not feel that there should be only one member to such committee. Therefore, the board eliminated the audit committee. Those functions are now assumed by the full board of directors. Upon consummation of the acquisition, the board intends to re-establish the audit committee of which the majority of the members will be independent.

Our Executive Officers

The names, ages and background for at least the past five years for each person who served as an executive officer during the past fiscal year of 2003 is as follows:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Period</u>
Dr. Alexander Wick	Director	66	September 1998 present
	President and Chief Executive Officer		September 2002 present
James Harris	Vice President, Marketing and Sales	50	January 2003 present
Robert Walsh	Director, Corporate Development	43	January 2003 present
	VP, Marketing and Sales		April 2000 January 2003
Matthew Kavanagh	Secretary, Principal Financial and Accounting Officer	48	July 2001 present

Dr. Alexander Wick. See Nominees to the Board.

Mr. James Harris has been our vice president marketing and sales since January, 2003. Prior to joining us, Mr. Harris founded and was the Principal of Healthcare Economics P.A. from 1998 to 2002. Prior to that, Mr. Harris spent eight years with Amgen most recently as a National Accounts Manager and ten years with Bayer in various sales and marketing capacities.

Mr. Robert Walsh is our director, corporate development since January 2003. Prior to his current position, Mr. Walsh served as our vice president of marketing and sales from April 2000 to January 2003. Before joining us, Mr. Walsh held the position of international marketing manager with Elanex Pharmaceutical Inc., a Seattle-based biotechnology company.

Mr. Matthew Kavanagh is our director of finance and corporate compliance (principal accounting and financial officer) and secretary. Mr. Kavanagh joined us in July 2001 and has 17 years experience as a chartered accountant in both public practice and industry. Prior to joining us, Mr. Kavanagh had been the controller and senior financial officer for Canadian Maple Leaf Financial Corporation, a publicly listed venture capital corporation from 1993 to 1999 and for Maynards Industries Limited, a private international auction and liquidation company from 1999 to 2001.

Report on Executive Compensation

The board has furnished the following report on executive compensation.

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Dragon has developed and implemented a compensation policy, plan, and program which attempts to enhance the profitability of Dragon, and thus shareholder value, by aligning closely the financial interests of Dragon executive officers with those of its shareholders. For Dragon, earnings per share growth and return on average shareholders' equity are critical elements in the establishment of long-term incentive programs. The process involved in the executive compensation determination for fiscal 2003 is summarized below.

Compensation for each of the persons named in the Executive Compensation Table, as well as other senior executives, consists of a base salary, an annual bonus, and long-term incentive compensation. Long-term incentives of stock options.

The Board has approved a Human Resources Policy that provides a framework to determine base salaries and annual bonuses after a subjective evaluation of various factors, including salaries paid to senior managers with comparable qualifications, experience, and responsibilities at other corporations, individual job performance, local market conditions, and the Board's perception of the overall financial performance of Dragon (particularly operating results), without considering specific performance targets or objectives, and without assigning particular weights to individual factors. As to executive officers other than the Chief Executive Officer, the Board also considers the recommendations made by the Chief Executive Officer.

By the Board of Directors

Dr. Alexander Wick

Dr. Longbin Liu, M.D.

Dr. Ken Cai

Dr. Yiu Kwong Sun, M.D.

Mr. Philip Yuen Pak Yiu

The following table summarizes all compensation earned by or paid to our Chief Executive Officer who served as such in 2003. No officer received compensation in excess of \$100,000 during year 2003.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Long Term Compensation						
		Annual Compensation			Awards	Payouts		All Other Compensation (\$) ³
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s)	Securities Underlying Options (#) ¹	LTIP Payouts (\$) ²	
Alexander Wick President	2003	Nil ⁽¹⁾	Nil	Nil	Nil	200,000	Nil	Nil
	2002	Nil ⁽¹⁾	Nil	Nil	Nil	Nil	Nil	Nil

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- ⁽¹⁾ Dr. Wick was appointed President in September 2002. He is not paid for his services, but is reimbursed for expenses he incurs in the course of performing his duties for the Company. In addition, he received an option to purchase 200,000 shares of common stock at \$0.68 per share in 2003.

Option Grants in 2003

The following table sets forth options granted to the named executive officer during the past fiscal year.

<u>Name</u>	<u>Number of Securities Underlying Options Granted</u>	<u>Percent of Total Options Granted to Employees in Fiscal Year ⁽¹⁾</u>	<u>Exercise Base Price (\$/sh)</u>	<u>Expiration Date</u>
Alexander Wick	200,000	40%	\$ 0.68	4/3/08

- ⁽¹⁾ Based on total options granted to employees in 2003 of 500,000.

Table of Contents**Aggregated Option Exercises in Last Fiscal Year and Ten-Year Options/SAR Repricings**

There was no repricing of options for the fiscal year ended December 31, 2003.

Fiscal Year End Option Values

The following table sets forth for our executive officer named in the Summary Compensation Table the number and value of exercisable and un-exercisable options as at December 31, 2003.

<u>Name</u>	<u>Shares Acquired on Exercise</u>	<u>Value Realized (\$)</u>	<u>Number of Securities Underlying Unsecured Options at December 31, 2003</u>		<u>Value of Unexercised In- The-Money Options at December 31, 2003 ⁽¹⁾</u>	
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Alexander Wick			275,000		\$ 50,000	\$

⁽¹⁾ Based upon the closing price of Dragon common shares of \$0.93 per share as of December 31, 2003.

Director Compensation

For our fiscal year ended December 31, 2003, we did not provide compensation to any of our directors for serving on the board or for attendance at meetings of committees of the board. Our directors are not routinely compensated for their services. However, from time to time, board members are awarded stock options as determined by the board. The exercise price of the options is based on the fair market value of the underlying shares of common stock at the time of grant.

Employment Agreements

We do not have any employment agreements. Dr. Wick is not currently receiving a salary from us. In April 2003, Dr. Wick received options to purchase 200,000 shares of common stock at \$0.68 per share.

Equity Compensation Plan Information

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Our shareholders approved a share option plan at our Annual Meeting held on December 18, 2001. There were 4,500,000 shares approved for issuance under the plan. The following table provides aggregate information as of June 30, 2004 with respect to all compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance.

<u>Plan Category</u>	<u>A</u>	<u>B</u>	<u>C</u>
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)
Equity compensation plans approved by security holders	1,996,500	\$ 2.16	712,000
Equity compensation plans not approved by security holders	50,000	\$ 1.70	0
Total	2,046,500	\$ 2.14	712,000

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The equity compensation plans not approved by security holders represent warrants to purchase 50,000 shares at \$1.70 per share, issued for consulting services. These warrants expire on November 14, 2004.

Stock Ownership of Directors, Executive Officers and Principal Shareholders

The following table shows the amount of our common stock (symbol: TSE:DDD; OTCBB:DRUG; Berlin, DRP) beneficially owned (unless otherwise indicated) by each shareholder known by us to be the beneficial owner of more than 5% of our common stock, by each of our executive officers and directors and the executive officers and directors as a group. Except as otherwise indicated, all information is as of August 19, 2004.

Name & Address of Beneficial Owner	Shares Beneficially Owned⁽¹⁾	
	Number	Percent
Zhibin Cai and Yu Fong Mei ⁽²⁾ 18 Main Street Votian Hubei, China Arbora Portfolio Management	1,899,000	9.2%
Gartenstrasse 38 Zurich, Switzerland Chow Tai Fook Nominee Limited ⁽³⁾	7,050,000	34.3%
DS Family Trust ⁽³⁾		
Li & Fang Enterprises Ltd. ⁽³⁾		
Chang Kuo Lung ⁽³⁾		
Yukon Health Enterprises Limited ⁽³⁾		
Kenny En Kai Ho ⁽³⁾		
Yuang Chen Chu Kuo ⁽³⁾		
Faith Equity Limited ⁽³⁾		
Global Equities Overseas Limited ⁽³⁾		

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Goldpac Investments Partners Ltd. ⁽³⁾

Philip Pak Yiu Yuen ⁽³⁾

c/o Chow Tai Fook Nominee Limited

31F New World Tower

16-18 Queens Road Central, Hong Kong
Hiu Min Liu⁽⁴⁾

2,247,000 10.9%

5 Lin Hui City

Guan Zhen Lao Zheng Street

Hunan, China
Alexander Wick

575,000⁽⁵⁾ 2.8%

President and Director
Longbin Liu

400,000⁽⁶⁾ 1.9%

Director
Ken Cai

300,000⁽⁶⁾ 1.5%

Director
Philip Pak Yiu Yuen

831,500⁽³⁾⁽⁷⁾ 4.0%

Director

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Name & Address of Beneficial Owner	Shares Beneficially Owned ⁽¹⁾	
	Number	Percent
Yiu Kwong Sun		
Director	775,000 ⁽³⁾⁽⁸⁾	3.8%
All directors and executive officers as a group (8 persons)	2,816,500 ⁽⁹⁾	13.7%

(1) Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners or publicly available, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage ownership of the person holding such option or warrants, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

(2) Zhibin Cai and Yu Fong Mei are the parents of Mr. Ken Cai, one of our directors. They do not reside with Mr. Ken Cai.

(3) Based on Chow Tai Fook Nominee Limited's Schedule 13D filed with the SEC on October 29, 2003, which was filed as a group. Represents 2,000,000 shares beneficially owned by Chow Tai Fook Nominee Limited; 400,000 shares beneficially owned by the DS Family Trust; 125,000 shares beneficially owned by Li & Fang Enterprises Ltd.; 497,500 shares beneficially owned by Chang Kuo Lung; 600,000 shares beneficially owned by Yukon Health Enterprises Limited; 560,000 shares beneficially owned by Kenny En Kai Ho; 160,000 shares beneficially owned by Yuang Chen Chu Kuo; 408,000 shares beneficially owned by Faith Equity Limited; 600,000 shares beneficially owned by Global Equities Overseas Limited; 1,543,000 shares beneficially owned by Goldpac Investments Partners Ltd.; and 156,500 shares beneficially owned by Philip Pak Yiu Yuen (each of the members of the group are collectively referred to as Members).

The Members have agreed to form a committee to represent the interests of the Members pursuant to a Shareholders Agreement dated October 17, 2003. The committee is comprised of representatives of six shareholder groups with each group consisting of certain Members. The initial committee members consists of David Chang (4868 Belmont Ave., Vancouver, B.C. V6T 1A9), Yiu Kwong Sun (Room 2901 2 Wing On House, 71 Des Voeux Road, Central Hong Kong), Gary Ho, Philip Yuen (Wing Lung Bank Building, 11/F, 45 Des Voeux Road, Central Hong Kong), and Joe Tai (Suite 620 1090 West Pender Street, Vancouver, B.C. V6E 2N7) with each committee member having a specified number of votes based on their respective group's ownership in Dragon. The total number of committee votes is 10,000 in the aggregate. All resolutions (except for resolution dealing with fundamental matters discussed below) of the committee shall be considered passed if such resolutions have been approved by committee members holding in the aggregate of more than 5,100 votes. Certain fundamental matters require the approval by committee representing in the aggregate 6,200 votes. Such fundamental matters include (i) Dragon acquiring or purchasing any securities or interest in any person or participate in any joint venture or strategic alliance which require Member approval as Dragon shareholders; (ii) decision relating to approval of Dragon selling, transferring or otherwise disposing all of its assets; (iii) decision relating to approval of Dragon selling, transferring or otherwise disposing of its intellectual property outside the ordinary course of business; (iv) decision relating to approval of Dragon engaging in any merger or amalgamation; (v) decision relating to approval of Dragon materially changing its business; (vi) decision relating to approval of Dragon issuing its securities that require shareholder's approval; (vii) decision relating to approval of Dragon amending or changing its articles or bylaws or jurisdiction of existence; and (viii) decision relating to approval of Dragon instituting any proceeding for its liquidation. The Shareholders Agreement is for a period of two years unless terminated earlier. In addition, the Members have entered into an Ownership Agreement dated of the same date that restricts the transfer of the Members' shares in Dragon.

(4) Hiu Min Liu is the sister of Dr. Longbin Liu, one of our directors. She does not reside with Dr. Liu.

(5) Includes options to purchase 275,000 shares exercisable within 60 days.

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- (6) Represents options exercisable within 60 days.
- (7) Includes 56,500 shares of common stock owned and 175,000 shares of common stock subject to options exercisable within 60 days. Also includes 600,000 shares of common stock owned by Global Equities Overseas Ltd. for which Mr. Yuen serves as a director and officer.
- (8) Includes 75,000 shares of common stock subject to options exercisable within 60 days. Also includes 100,000 shares of common stock owned directly and 600,000 shares of common stock owned by Yukon Health Enterprise for which Mr. Sun serves as a director.
- (9) Includes options and warrants to acquire 1,560,000 shares of common stock. Also includes shares owned by Mr. Yuen and Yukon Health Enterprises Ltd. and Global Equities Overseas Ltd. It does not include shares held by other Members of the group disclosed in Note (4).

Compliance with Section 16 of The Securities Exchange Act of 1934

Section 16(a) of the Exchange Act requires our executive officers and directors to file reports of ownership and changes in ownership of our common stock with the SEC. Executive officers and directors are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

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Based solely upon a review of Forms 3, 4 and 5 delivered to us as filed with the Securities and Exchange Commission, we believe that our executive officers and directors and persons who own more than 10% of our common stock timely filed all required reports pursuant to Section 16(a) of the Exchange Act except for Mr. Wick who inadvertently filed one late Form 4 report disclosing the exercise of an option.

Certain Relationships and Related Transactions

During the past two fiscal years, we have been a party to transactions involving certain of our directors or executive officers. See also Notes 8, 9, 14 and 19(b) to our Financial Statements for the year ended December 31, 2003.

Dragon has entered into a verbal agreement with a company controlled by Dr. Ken Cai, one of our directors. During 2002 we paid \$80,000 and during 2003, we paid \$40,000 to Dr. Cai's company. The agreement was terminated in June 2003. Dr. Cai's company provided oversight and management services to Company for its operations in China.

On October 6, 2000, we entered into an acquisition agreement with Alphatech Bioengineering to acquire its rights and technology relating to developing Hepatitis B vaccine through the application of genetic techniques on hamster ovary cells. Alphatech Bioengineering's Hepatitis B vaccine is in the development stage. Alphatech Bioengineering is jointly owned by Dr. Longbin Liu and Mr. Philip Yuen, two of our directors. On June 5, 2001, Dragon amended the agreement with Alphatech to allow Dragon to pursue additional options for the Hepatitis B Vaccine project. Under the terms of the amended agreement, Dragon would explore different options for the Hepatitis B Vaccine project including, but not limited to, joint venture partnerships, establishing a production facility, and selling the project to a third party.

In the event that Dragon did not find an option regarding the Hepatitis B Vaccine project suitable to Dragon within nine months from the date of the Amended Agreement, Dr. Longbin Liu, one of the principals of Alphatech, would repurchase the Hepatitis B Vaccine project for \$4.0 million, which was the purchase price that Dragon originally paid to Alphatech, and assume operational development. Dr. Liu was the President and CEO of Dragon at the time of both transactions. Dragon decided not to pursue the project and Dr. Liu demanded to repurchase the project on the agreed terms. Dr. Liu has paid Dragon \$500,000 with the balance of \$3.5 million, plus interest accruing at 6% per annum from September 2002, due September 5, 2003. Dr. Liu did not pay the remaining balance of \$3.5 million on the due date of September 5, 2003. As a result of the non-payment, Dragon began legal action to collect the money.

During fiscal year 2000, Dragon paid \$400,000 to Guanzhou Recomgen Biotech Co. Ltd. (Guanzhou Recomgen), a company incorporated in China, for the funding of its TPA research and development programs with the intention of acquiring the technology. Guanzhou Recomgen is controlled by Dr. Longbin Liu. Subsequent to the year-end, due to financial market and economic conditions, the Company decided not to proceed with the funding and the acquisition. In accordance with the agreement, Guanzhou Recomgen refunded the \$400,000 to Dragon during fiscal 2002.

We have entered into a Patent Development Agreement dated January 14, 2002 with Dr. Longbin Liu and Novagen whereby we have the first right to select and acquire one patent resulting from the discover of a new gene or protein. In consideration of the right under the Patent Development Agreement, we paid Dr. Liu and Novagen \$500,000 in the aggregate and warrant to purchase 1,000,000 shares of our common stock at an exercise price of \$2.50 per share. The \$500,000 will be refunded and warrant will be cancelled if no patent applications have been filed by January 14, 2005.

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We have entered into a Project Development Agreement with Dr. Liu dated January 14, 2002 whereby Dr. Liu has agreed to conduct the research and development of G-CSF and Insulin for Dragon. Dragon will make payment for the development of G-CSF as follows: (i) \$500,000 to be provided at the commencement of the research in the G-CSF Project; (ii) \$500,000 to be provided when cell-line and related technology is established and animal experimentation commences in the G-CSF Project; (iii) \$300,000 to be provided when a permit for clinical trials for G-CSF has been issued by the State Drug Administration of China (SDA); (iv) \$200,000 to be provided when a

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

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

For both the G-CSF and Insulin Projects: (i) If Dragon 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; and (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 Dr. Liu, then the Dr. Liu will refund to Dragon all amounts paid, without interest or deduction, with respect to the Project within six months.

During 2002, Dragon paid a total of \$1,500,000 and \$500,000 towards the Insulin and G-CSF Projects, respectively. Dragon has paid an additional \$100,000 to a company controlled by Dr. Liu to produce Insulin samples for drug registration purposes. No payments were made by Dragon in 2003 under the Project Development Agreement.

On April 4, 2004, Dragon entered into an agreement with Dr. Longbin Liu and his affiliate to settle the amount owing to Dragon from his acquisition of the Hepatitis B Vaccine Project as well as cancellation of the Patent and Project Development agreements between the parties. Under the terms of the settlement agreement, the G-CSF, Insulin and Hepatitis B Projects, including the rights of ownership and development obligations would revert to Dr. Liu.

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

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PROPOSAL 4 - RATIFICATION OF INDEPENDENT ACCOUNTANTS

The board of directors has appointed Moore Stephens Ellis Foster Ltd. (Moore Stephens), Chartered Accountants, as our independent accountants to audit our consolidated financial statements and those of our subsidiaries for the 2004 fiscal year. Moore Stephens has served as our independent accountants for the fiscal years ended December 31, 2002 and December 31, 2003.

We are submitting our selection of independent accountants for ratification by our shareholders at the annual meeting. Our Bylaws do not require the shareholders to ratify the selection of Moore Stephens as our independent accountants. However, we are submitting the selection of Moore Stephens to the shareholders for ratification as good corporate practice. If the shareholders do not ratify the selection, our audit committee will reconsider whether or not to retain Moore Stephens. Even if the selection is ratified, the audit committee, in its sole discretion, may change the appointment at any time during the year if it determines that such a change would be in our best interest and that of our shareholders. Representatives of Moore Stephens will be present at the annual meeting to respond to appropriate questions from the shareholders and will be given the op