

DRAGON PHARMACEUTICALS INC  
Form DEF 14A  
December 08, 2004  
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## SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the registrant  Filed by a party other than the registrant

Check the appropriate box:

- Preliminary proxy statement
- Confidential, for use of the commission only (as permitted by Rule 14a-6(e)(2))**
- Definitive proxy statement
- Definitive additional materials
- Soliciting material pursuant to Section 240.14a-11(c) or Section 240.14a-12

**DRAGON PHARMACEUTICAL INC.**

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(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

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.. No fee required.

.. 124 per Exchange Act Rules O-11(c)(1)(ii), 14a-6(i)(2) or Item 22(a)(2) of Schedule 14A.

x Fee computed on table below per Exchange Act Rules 14a-6(I) and 0-11.

(1) Title of each class of securities to which transaction applies: Common Stock, \$0.001 par value.

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(2) Aggregate number of securities to which transactions applies: 48,867,551 shares of Common Stock.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (Set forth the amount on which the filing fee is calculated and state how it was determined): Based on the average high and low price of \$.88 per share quoted upon the OTC Bulletin as of October 18, 2004.

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(4) Proposed maximum aggregate value of transaction: \$43,003,444

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(5) Total fee paid: \$5,061.10

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.. Fee paid previously with preliminary materials.

x Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid: \$5,759.00

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(2) Form, Schedule or Registration Statement No.: 333-117428

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(3) Filing Party: Registrant

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(4) Date Filed: July 16, 2004



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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 Tuesday, January 11, 2005 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.,

approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 50,000,000 shares to 200,000,000 shares; 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. In addition, the acquisition will allow us to consolidate office space and eliminate functional duplications primarily in our China sales and distribution area. Overall, we believe the combined company will better position us to deliver increased shareholder value over what could be achieved by Dragon individually. Based on the recent closing price of \$0.85 for a share of our common stock as of November 29, 2004, the estimate value of the acquisition is approximately \$37.8 assuming 44.5 million shares are issued.

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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 in the acquisition, we will be required to issue approximately 44.5 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 one stage, 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 will still be able to complete the acquisition, but in two stages. If you do not want shareholders of Oriental Wave to control 68.35% of our common shares, you should vote against the acquisition. However, we believe that the acquisition will be beneficial to our shareholders and urge you to vote for the issuance of the shares for the acquisition and for the other proposals set forth in the accompanying proxy statement.

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*

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Alexander Wick  
President

December 8, 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 January 11, 2005**

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**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 January 11, 2005 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 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 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 November 29, 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

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Secretary

December 8, 2004

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**DRAGON PHARMACEUTICAL INC.**

**1055 West Hastings Street, Suite 1900**

**Vancouver, British Columbia**

**Canada V6E 2E9**

**Telephone (604) 669-8817**

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**PROXY STATEMENT**

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We, Dragon Pharmaceutical Inc., are furnishing this proxy statement to you in connection with our 2004 annual meeting to be held on Tuesday, January 11, 2005, 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 stage 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.

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 is being mailed on or about December 8, 2004.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement 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, the words estimate, project, believe, anticipate, intend, expect, plan, predict, may, should, will, the negative of these words, and variations thereof 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 entitled Risk Factors.

The forward-looking statements contained in this proxy statement speak only as of the date of the proxy statement. 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, 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 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.*

**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.

The principal trading market for our common shares, 82.6% of volume to date in 2004, is the OTC Bulletin Board. In Canada, we are also listed on the Toronto Stock Exchange (1.9% of our trading volume to date in 2004). No approvals are required from the NASD, the principal regulator of the OTC Bulletin Board, in order for us to complete the acquisition of Oriental Wave. With respect to the Toronto Stock Exchange, we have filed an application for approval of the acquisition of Oriental Wave but have not yet completed all filings nor have we had the transaction reviewed by the listings committee of that stock exchange. If we obtain shareholder approval to the proposals to approve the issuance of the common stock and to increase the number of authorized shares of common stock, and we wish to close the transaction and maintain our listing on the Toronto Stock Exchange, we will be required to meet all conditions imposed by that stock exchange before closing. The Toronto Stock Exchange regards the proposed transaction as a reverse takeover transaction. As a result, we have been advised that as a condition of obtaining the approval of the Toronto Stock Exchange to the proposed acquisition, we must satisfy the exchange's original listing requirements. While we are currently in the process of attempting to satisfy these requirements, as at the date of this proxy statement, we have not satisfied the exchange's original listing requirements and there can be no assurance that we will be able to do so. One of the requirements is that a member broker of the Toronto Stock Exchange sponsor our listing as a company combined with Oriental Wave. We have engaged Canaccord Capital Corporation to serve as a sponsor and to issue a report. No assurance can be given that we will receive a sponsorship report or that the approval of the listings committee, if granted, will be received by the time we wish to close the acquisition. If we choose to close the transaction without having completed all the requirements imposed by the Toronto Stock Exchange, this may result in our shares no longer being listed on that stock exchange. In that case, we will seek an additional listing on another exchange if we believe that will be beneficial to our shareholders. The loss of our listing on the Toronto Stock Exchange will not affect the listing of our common stock on the OTC Bulletin Board, which will remain our primary market. See [Stock Exchange Listings and Approvals](#).

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?**

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 20,602,000 shares of our common stock outstanding and 1,999,000 shares reserved for future issuance as of November 29, 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 48.8 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 and a copy of the agreement is also attached to this proxy statement as Annex A.

We will seek to obtain approval for these proposals at the meeting. This proxy statement 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 will still be able to complete the acquisition, but in two stages. In the first stage we intend to acquire 60% of the outstanding shares of Oriental Wave for approximately 27.4 million shares of our common stock. We intend to acquire the remaining 40% of the outstanding shares of Oriental Wave in consideration for our

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issuance of the remaining number of shares in a subsequent stage that will occur after shareholder approval of an amendment to our Certificate of Incorporation increasing the number of our authorized shares of common stock. Because we will hold a controlling interest in Oriental Wave and the Oriental Wave shareholders will hold a sufficient number of our outstanding shares, we will be able to increase the authorized number of shares without seeking further shareholder approval.

### **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 November 29, 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?**

If you do not wish to relinquish 68.35% of our control to the Oriental Wave shareholders, you should vote against proposal to approve the issuance of our common stock in connection with the acquisition. However, even though you may vote against such proposal, you will not be entitled to dissenters' rights in connection with that or any of the other 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 20,602,000 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, 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 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.

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

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. We urge you to read carefully the remainder of this proxy statement, 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 88.*

### **The Meeting**

Our annual meeting of shareholders is to be held on Tuesday, January 11, 2005 at 10:00 a.m. local time. 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 134 countries. We have commenced sales in eight of those countries, namely Brazil, India, Egypt, Peru, Ecuador, The Dominican Republic, Trinidad-Tobago, and Kosovo. 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 20,602,000 shares of our common stock outstanding and 1,999,000 shares reserved for future issuance as of November 29, 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 48.8 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 November 29, 2004, we had 20,602,000 shares of common stock outstanding and 1,999,000 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 stage, 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 will still be able to complete the acquisition, but in two stages. The first stage

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of the acquisition will result in 60% of the shares of Oriental Wave transferred to us in exchange for approximately 27.4 million shares of our common stock. This will result in the Oriental Wave shareholders owning, as a group, approximately 54.8% 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 upon amending our certificate of incorporation to increase the number of authorized share which will be obtained because the Oriental Wave shareholders will own a sufficient number of shares to amend the certificate of incorporation without seeking further shareholder approval

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### **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 conditions will not be waived by Dragon. Notwithstanding the foregoing, we may seek to waive the condition that the transaction be approved by the Toronto Stock Exchange in order to complete the acquisition.

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

at any time with the written consent of each party,

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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

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

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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, are 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 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.



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***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:

***We did not engage an investment banker to assist in evaluating the acquisition.*** Although we considered engaging an investment banker to assist us in evaluating the acquisition, we did not do so. As a result, we will not receive an opinion from a professional independent investment banker stating that the acquisition is fair, from a financial point of view, to our shareholders.

***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 September 30, 2004, Oriental Wave had short term notes payable of approximately \$14.7 million of which \$1.8 million was due in September 2004 and the remaining \$12.9 million is due in 2005. Oriental Wave's bankers recently approved a renewal of its \$1.8 million note for an additional six months. However, Oriental Wave must continue to seek approval from its bankers to renew or restructure a significant amount of its other short-term debt and no assurances can be given that this will occur in the future.

***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.



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### **Recommendation of the Board of Directors**

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 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 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 with the remaining 40% of the outstanding common shares to be acquired shortly thereafter.



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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 September 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 September 30, 2004. These pro forma consolidated financial statements are not necessarily indicative of the 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 September 30, 2004

	ORIENTAL WAVE	DRAGON	PRO FORMA ADJUSTMENT	100% PRO FORMA CONSOLIDATED	MINORITY INTEREST ADJUSTMENT <sup>(1)</sup>	60% PRO FORMA CONSOLIDATED
Total Current Assets	\$ 19,402,510	\$ 5,689,283		\$ 25,091,793		\$ 25,091,793
Total Assets	\$ 84,505,682	\$ 10,259,422		\$ 94,765,104		\$ 94,765,104
Total Liabilities	\$ 62,002,288	\$ 1,341,471	\$ (2,420,000)	\$ 60,923,759		\$ 60,923,759
Total Shareholders Equity	\$ 22,503,394	\$ 8,917,951	\$ 2,420,000	\$ 33,841,345	\$ (9,001,358)	\$ 24,839,987

**Pro Forma Consolidated Balance Sheet Data**

As of December 31, 2003

	ORIENTAL WAVE	DRAGON	PRO FORMA ADJUSTMENT	100% PRO FORMA CONSOLIDATED	MINORITY INTEREST ADJUSTMENT <sup>(1)</sup>	60% PRO FORMA CONSOLIDATED
Total Current Assets	\$ 12,390,299	\$ 5,622,402	500,100	\$ 18,512,801		\$ 18,512,801
Total Assets	\$ 53,126,512	\$ 11,136,052	\$ (500,100)	\$ 64,262,564		\$ 64,262,564
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	\$ 2,420,000	\$ 27,127,160	\$ (5,999,746)	\$ 21,127,414

**Pro Forma Consolidated Statement of Operations Data**

For the Nine Months Ended September 30, 2004

ORIENTAL WAVE	DRAGON	PRO FORMA ADJUSTMENT	100%	MINORITY INTEREST ADJUSTMENT <sup>(1)</sup>	60%
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			<u>PRO FORMA CONSOLIDATED</u>		<u>PRO FORMA CONSOLIDATED</u>
Sales	\$ 21,791,874	\$ 2,843,669	\$ 24,635,543		\$ 24,635,543
Gross Profit	\$ 12,173,597	\$ 2,120,636	\$ 14,294,233		\$ 14,294,233
Total operating expenses	\$ 5,605,915	\$ 2,812,273	\$ 8,418,188		\$ 8,418,188
Income (Loss) from Operations	\$ 7,692,478	\$ (880,611)	\$ 6,811,867		\$ 6,811,867
Net Income (Loss) for the year	\$ 7,275,881	\$ (849,576)	\$ 6,426,305	\$ (2,910,352)	\$ 3,515,953
Net Income (Loss) per share - basic and diluted	\$ 145.52	\$ (0.04)	\$ 0.10		\$ 0.07

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For the Year Ended December 31, 2003

	ORIENTAL WAVE	DRAGON	PRO FORMA ADJUSTMENT	100% PRO FORMA CONSOLIDATED	MINORITY INTEREST ADJUSTMENT <sup>(1)</sup>	60% PRO FORMA CONSOLIDATED
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 the number of authorized shares does not receive the required vote, we will still be able to complete the acquisition, but in two stages. In the first stage, we will issue approximately 27.4 million shares of common stock in exchange for 60% of the shares of Oriental Wave. This will be followed by a subsequent acquisition of the remaining 40% of the shares of Oriental Wave. See The Share Purchase Agreement Consideration to be Received by Shareholders of Oriental Wave .

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**

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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 44,491,207 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.

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

	<b>At or for the Nine Months Ended September 30 , 2004 (unaudited)</b>	<b>At or for the Year Ended December 31, 2003</b>
<b>Book value per share<sup>(a)</sup>:</b>		
Dragon	\$ 0.43	\$ 0.47
Oriental Wave	\$ 450.07	\$ 299.99
Dragon pro forma <sup>(c)</sup>	\$ 0.52	\$ 0.42
<b>Tangible book value per share<sup>(b)</sup>:</b>		
Dragon	\$ 0.30	\$ 0.33
Oriental Wave	\$ 441.11	\$ 290.12
Dragon pro forma <sup>(c)</sup>	\$ 0.47	\$ 0.37
<b>Basic and diluted earnings (loss) per share:</b>		
Dragon	\$ (0.04)	\$ (0.10)
Oriental Wave	\$ 145.52	\$ 151.68
Dragon pro forma <sup>(c)(d)</sup>	\$ 0.10	\$ 0.09
<b>Number of shares outstanding at the end of each period:</b>		
Dragon	20,602,000	20,462,000
Oriental Wave	50,000	50,000
Pro Forma <sup>(c)</sup>	65,093,207	64,953,207

- (a) Calculated by dividing stockholders' equity by the number of shares outstanding at the end of the period.
- (b) Calculated by dividing stockholders' equity, less intangible assets, by the number of shares outstanding at the end of the period.
- (c) The Dragon pro forma per share amounts and outstanding shares are calculated assuming that 100% of the acquisition of Oriental Wave has been completed.
- (d) Pro forma earnings per share is calculated by dividing pro forma earnings for the period by the anticipated pro forma number of shares outstanding of 65,026,054 shares for the nine months ended September 30, 2004 and 64,839,402 shares for the year ended December 31, 2003.

**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 representing approximately 82.6% of our trading volume. 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.

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<b><u>Quarter Ended</u></b>	<b><u>Common Stock</u></b>	
	<b><u>High</u></b>	<b><u>Low</u></b>
October 1 - November 29, 2004	\$ 0.93	\$ 0.80
September 30, 2004	\$ 1.01	\$ 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

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.

**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. 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. Such matters may include the approval of significant corporate transactions such as increasing the authorized number of our shares to complete the acquisition, if necessary, 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.

**We did not engage an investment banker to evaluate the acquisition.**

In connection with the proposed acquisition of Oriental Wave, we did not engage an investment banker to assist us in our evaluation of Oriental Wave. As a result, although we considered engaging an investment banker to assist us in this acquisition, there was no independent professional investment banker to determine if the acquisition is fair, from a financial point of view, to our shareholders.

**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



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successfully integrate the operations of the two companies could have a material adverse effect on our business, results of 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 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 September 30, 2004, Oriental Wave had a working capital deficit of \$16,059,790, including short term notes of \$14.7 million, of which \$1.8 million was due in September 2004. Oriental Wave has renewed the \$1.8 million note for an additional six months. As these other short-term loans become due, Oriental Wave must seek banker's approval to restructure or renew these other 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 nine months ended September 30, 2004, sales to Shanxi Weiqida's five largest distributors of pharmaceutical products in China accounted for approximately 15.3%, 11.5% and 8.9% 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 2.2% 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

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shareholders' equity but are not available for distribution to shareholders other than in the case of liquidation. As a result of this requirement, the amount of net income available for distribution to shareholders will be limited.

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### *Risks related to the Combined Company after the Acquisition*

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

As of September 30, 2004, Oriental Wave had a negative working capital of \$16,059,790, including short-term notes due of \$14.7 million, of which \$1.8 million was due in September 2004. Oriental Wave has renewed the \$1.8 million note for an additional six months. As a result, Oriental Wave must, during the upcoming twelve months, negotiate 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 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

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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. At this time, we are unaware of any China legislative proposals that could adversely affect our business. 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.

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

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 34% of sales in the nine 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.

### **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

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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. Further, the Ministry of Commerce has discussed that certain large pharmaceutical companies may be granted priority for technical innovation and research and development. However, the Ministry of Commerce has not provided any further guidance as to priority with respect to such technical innovation and research and development. 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 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 20,602,000 shares of our common stock outstanding and 1,999,000 shares reserved for future issuance as of November 29, 2004, we estimate that we will issue up to an aggregate of approximately 44.5 million shares of common stock, plus any additional shares needed to account for outstanding options and warrants, 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 in connection with the acquisition 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 will still be able to complete the acquisition, although it will occur 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 27.4 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 54.8% 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. Because, after the first stage, we will hold a controlling interest in Oriental Wave and the shareholders of Oriental Wave will hold a sufficient number of our outstanding shares, we will be able to guarantee shareholder approval of the increase of our authorized shares necessary to complete the acquisition of the remaining outstanding Oriental Wave shares. 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. See The Share Purchase Agreement Consideration to be Received by the Shareholders of Oriental Wave.

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. In addition, the acquisition will allow us to consolidate office space and eliminate functional duplications primarily in our China sales and distribution area. Overall, we believe the combined company will better position us to deliver increased shareholder value over what could be achieved by Dragon individually. Based on the recent closing price of \$0.85 for a share of our common stock as of November 29, 2004, the estimate value of the acquisition is approximately \$37.8 million assuming 44.5 million shares are issued.

**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 and was the result of negotiations between the two parties. 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 September 30, 2004 and calculated on a fully diluted basis.

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- (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 27.4 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 first stage of the acquisition, because 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. Included in the Board information package was a discussion of the potential detriments of the acquisition to our shareholders. Such detriments included:

our current shareholders would be minority shareholders of the combined company; and

the Oriental Wave shareholders would have the ability to control the combined company and would be able to control management and effect corporate transactions without seeking further shareholder approval.

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. 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.

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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.

**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 acquisition and wanted to evaluate another company to sell our EPO product in China. Mr. Yuen did not give specific reasons why he did not feel comfortable going forward with the acquisition. 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

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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;

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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.

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 Houser & 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

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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 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.

***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.

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

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	11 sales managers with 45 sales representatives	63 sales managers with over 1,200 sales representatives
Production facilities	One biotech facility	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 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.

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***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, out of which Dragon generates sales from eight countries, namely Brazil, Egypt, India, Peru, Ecuador, The Dominican Republic, Trinidad-Tobago, and Kosovo. 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.

***Purchase Price.*** Under the terms of the Share Purchase Agreement, the Oriental Wave shareholders will receive 68.35% of the outstanding common stock, and our current shareholders will receive 31.65% of the combined company. The ownership percentages are fixed notwithstanding potential fluctuations in the market price of our common stock.



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During the negotiations, the parties did consider determining the purchase price based on the trading price of our common stock. However, our common stock is quoted in the OTC Bulletin Board and is thinly traded due to the limited float of common stock and the lack of institutional investors and research. As a result, the price of our common stock is highly volatile and a few trades could affect the price of our common stock even though such trades may bear no relation to our perceived value. Therefore, we believed the acquisition of Oriental Wave based upon a fixed percentage ownership was more beneficial to our shareholders.

At the time we began our initial discussions with Oriental Wave, our per share price was quoted in the range of \$0.45 to \$0.84 per share. We believe that had we based the purchased price based on the then current trading prices, our ownership of the combined company would be less than 31.65%. If the price of our share of common stock increased, then we may have not been required to issue as many shares of common stock to complete the acquisition. However, as previously mentioned, we did not believe that the market price is an exclusive indicator of our value. As of November 29, 2004, the closing price for a share of our common stock was \$0.85.

## **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 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.

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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.

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### **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 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

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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**

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 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. We urge our shareholders to read the Share Purchase Agreement carefully and in its entirety as well as this proxy statement before making any decisions regarding the proposals.

## ***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 November 29, 2004, Dragon had 20,602,000 shares of common stock outstanding and obligations to issue 1,999,000 shares of common stock upon the exercise of convertible securities. Based on our outstanding shares and shares reserved for future issuance as at November 29, 2004, 44,491,207 Dragon Closing Shares and 4,316,956 Additional Dragon Common Shares would be issued to the shareholders of Oriental Wave in exchange for all

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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.

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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 stage. 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 will still be able to complete the acquisition of Oriental Wave, but in two stages. Based on our outstanding shares and shares reserved for issuance as at November 29, 2004, in the first stage we would acquire 60% of the outstanding shares of Oriental Wave in exchange for approximately 27.4 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 stage. 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	20,602,000	1,999,000	22,601,000	42.92%	45.20%
Current Shareholders of Oriental Wave					
Dragon Closing Shares <sup>(4)</sup>	27,399,000		27,399,000	57.08%	54.80%
Additional Dragon Closing Shares					
	27,399,000 <sup>(5)</sup>		27,399,000	57.08%	54.80%
<b>Totals</b>	<b>48,001,000</b>	<b>1,999,000</b>	<b>50,000,000</b>	<b>100.00%</b>	<b>100.00%</b>

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

(2) Calculated based on 48,001,000 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, 19.18 million shares, Mr. Weng, 5.48 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 stage, though we will not complete the first stage unless we acquire more than 50% of the outstanding shares of Oriental Wave.

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Following 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, will represent more than 50% of our outstanding shares. The current controlling shareholders of Oriental Wave will then 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 has occurred, we will acquire the remaining 40% minority interest in Oriental Wave held by the current shareholders of Oriental Wave. Following this second stage, 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	20,602,000	1,999,000	22,601,000	29.68%	31.65%
Current Shareholders of Oriental Wave					
Dragon Closing Shares	44,491,207		44,491,207	64.10%	62.30%
Additional Dragon Closing Shares <sup>(4)</sup>	4,316,956		4,316,956	6.22%	6.05%
	48,808,163 <sup>(5)</sup>		48,808,163	70.32%	68.35%
<b>Totals</b>	<b>69,410,163</b>	<b>1,999,000</b>	<b>71,409,163</b>	<b>100.00%</b>	<b>100.00%</b>

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

(2) Calculated based on 69,410,163 shares outstanding.

(3) Calculated based on 71,409,163 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, 34.17 million shares, Mr. Weng, 9.76 million shares, and Ms. Liu, 4.88 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 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.

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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,

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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,

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

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,

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.



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***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,

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

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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 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,

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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

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.



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### ***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. Notwithstanding the foregoing, if necessary, we may waive the condition of approval by the Toronto Stock Exchange in order to consummate the acquisition.

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.

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

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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.

## **Stock Exchange Listing And Approvals**

Our common stock is quoted or listed on the OTC Bulletin Board, the Berlin-Bremen Exchange, the Frankfurt Exchange, the Toronto Stock Exchange and the XETRA Exchange. By trading volume in 2004, the primary market for our common stock is the OTC Bulletin Board (82.6% of volume), followed by the Berlin-Bremen Exchange (12.3% of volume), the Frankfurt Exchange (3.0%), the Toronto Stock Exchange (1.9% of volume) and the XETRA Exchange (0.1% of volume).

No approvals are required from the NASD, the principal regulator of the OTC Bulletin Board, in order for us to complete the acquisition of Oriental Wave. As the Berlin-Bremen, Frankfurt and XETRA stock exchanges list shares at the request of participating broker-dealer members rather than solely on an application from an issuer, we are not required to make any filings with or seek the approval of these exchanges in connection with our proposed acquisition of Oriental Wave. After the acquisition of Oriental Wave our common stock will continue to be quoted on the OTC Bulletin Board, our primary market, and we expect will also continue to be quoted on the Berlin-Bremen, Frankfurt and XETRA stock exchanges.

With respect to the Toronto Stock Exchange, we have filed an application for approval of the acquisition of Oriental Wave but have not yet completed all filings nor have we had the transaction reviewed by the listings committee of that stock exchange. If we obtain shareholder approval to the proposals to approve the issuance of the common stock and to increase the number of authorized shares of common stock, and we wish to close the transaction and maintain our listing on the Toronto Stock Exchange, we will be required to meet all conditions imposed by that stock exchange before closing. The Toronto Stock Exchange regards the proposed transaction as a reverse takeover transaction. As a result, we have been advised that as a condition of obtaining the approval of the Toronto Stock Exchange to the proposed acquisition, we must satisfy the exchange's original listing requirements. While we are currently in the process of attempting to satisfy these requirements, as at the date of this proxy statement, we have not satisfied the exchange's original listing requirements and there can be no assurance that we will be able to do so. One of the requirements is that a member broker of the Toronto Stock Exchange sponsor our listing as a company combined with Oriental Wave. We have engaged Canaccord Capital Corporation to serve as a sponsor and to issue a report. No assurance can be given that we will receive a sponsorship report or that the approval of the listings committee, if granted, will be received by the time we wish to close the acquisition. If we choose to close the transaction without having completed all the requirements imposed by the Toronto Stock Exchange, this may result in our shares no longer being listed on that stock exchange. In that case, we will seek an additional listing on another exchange if we believe that will be beneficial to our shareholders. The loss of our listing on the Toronto Stock Exchange will not affect the listing of our common stock on the OTC Bulletin Board, which will remain our primary market. The Toronto Stock Exchange is reviewing the proposed acquisition of Oriental Wave to determine compliance with its rules and policies, but does not pass upon the merits of the proposed acquisition.

## **Comparison Of Shareholder Rights**

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.

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.



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***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.

***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.

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***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.

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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 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.

### ***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***

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**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.

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### ***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***

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 outside of China. A locally based pharmaceutical distribution company refers to the type of licensee or company that licenses and distributes our products in a specifically assigned market area or territory. We 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 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.

One locally-based pharmaceutical distributor had 3%, 13% and 18%, and another locally-base distributor had 0%, 13% and 3%, of our total sales for the years ended December 31, 2002 and 2003 and for the nine months ended September 30, 2004, respectively. We do not believe that we are substantially dependent on anyone locally-based distributor and could find a replacement distributor if one of our distributors encountered problems.

### ***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. We recognize revenues from the sale of our EPO when it is shipped to the customer at which time the customer is responsible for the EPO. Once the sale has occurred, we do not accept the return of our EPO.

Sales of EPO in China increased during the nine months ended September 30, 2004 as compared to the nine months ended September 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

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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 nine months ended September 30, 2004. We had greater EPO sales during the nine months ended September 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. In anticipation of regulatory approval to sell our EPO in Brazil in 2001, we began packaging and building up our EPO inventory. However, we experienced delays in obtaining regulatory approval to sell our EPO in that country. Although we finally received regulatory approval in Brazil, the delay in obtaining such approval decreased the shelf life of our EPO. In order to reduce our inventory, we reduced our EPO sales price to make EPO sales in Brazil and other countries that adversely affected our profit margin for during the nine months ended September 30, 2003. As a result of our experience, we will not produce our products and build up our inventory in anticipation of regulatory approval to sell our products in a specific country.

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 nine months ended September 30, 2004 and September 30, 2003 was \$849,576 and \$1,253,034 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 nine months ended September 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 \$4,347,812 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.

*Results of Operations for the Nine Months ended September 30, 2004 as compare to the Nine Months ended September 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 nine-month period ended September 30, 2004 were \$2,843,669 compared to \$2,823,654 for the nine-month period ended September 30, 2003. Sales in and outside of China were \$2,051,184 and \$792,485 respectively, during the nine-month period ended September 30, 2004. Sales during the nine-month period ended September 30, 2003 were \$1,773,708 in China and \$1,049,946 outside of China. Sales in China increased during the nine-month period ended September 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 nine months ended September 30, 2003, our compensation structure was more salary-based which did not provide sufficient incentives to our sales force. During the nine months ended September 30, 2004, sales outside of China decreased compared to the same period of the prior year. During the nine months ended September 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 nine months ended September 30, 2003, the price reduction reduced our profit margin.





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Cost of sales for the nine-months ended September 30, 2004 of \$723,033 is attributed to the production costs of our pharmaceutical products. The cost of sales for the nine-month period ended September 30, 2003 was \$882,267. The gross profit margin was 75% for the nine-month period ended September 30, 2004 and 69% for the nine-month period ended September 30, 2003. The lower profit margin during the nine month period ended September 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 reducing the gross margin to 69% from the normal overall gross margin of 75%-80%

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 nine-month period ended September 30, 2004 was \$31,035 compared to \$21,004 for the nine-month period ended September 30, 2003. Interest income increased during the nine months ended September 30, 2004 as compared to the same period for the prior year primarily due to a marginally increase in interest rates.

**Expenses.** Total operating expenses for the nine-month period ended September 30, 2004 were \$3,001,247 consisting of selling, general and administrative expenses of \$2,273,807, depreciation and amortization of \$538,466, research and development expenses of \$152,011, new market development of \$13,993, provision for bad debt of \$20,816 and interest expense of \$2,154. Comparatively, total operating expenses for the nine-month period ended September 30, 2003 were \$3,215,425 consisting of selling, general and administrative expenses of \$2,553,462, depreciation and amortization of \$555,869, new market development of \$30,291, provision for bad debt of \$44,668 and interest expense of \$5,251.

Selling, general and administrative expenses for the nine months ended September 30, 2004, primarily consisted of \$997,423 in selling expenses, rent of \$253,876, salaries and benefits of \$600,012, travel costs of \$133,934, insurance of \$34,832 and legal fees of \$56,526. Selling, general and administrative expenses for the nine months ended September 30, 2003, primarily consisted of selling expenses of \$1,161,719, rent of \$280,796, salaries and benefits of \$594,938, \$143,377 in travel costs, insurance of \$50,001 and management fees of \$40,000 paid to a director for services.

Overall, selling, general and administrative expenses decreased by \$279,655 during the nine months ended September 30, 2004 as compared for the nine months ended September 30, 2003. During the nine months ended September 30, 2004, selling expenses decreased by \$164,296 from the same period of the prior year as a result of sales staff reductions and implementation of a commission-based compensation structure. Other reductions occurred as we completed the streamlining of operations which was undertaken in late 2002. Rent decreased by \$26,920 as a result of the closure of our Beijing and Hong Kong representative offices and diligently pursued cutting costs in all areas where practical, including a decrease in insurance cost of \$15,169 and travel costs of \$9,443. In addition management fees paid to related parties for services decreased by \$40,000.

Depreciation of fixed assets and amortization of license and permit of \$538,466 for the nine months ended September 30, 2004 compared to \$555,869 for the nine months ended September 30, 2003 remained relatively the same as we did not acquired significant assets or licenses during the nine months ended September 30, 2004. Further during the nine months ended September 30, 2004, we incurred research and development fees of \$152,011 related to our proposed EPO product to be offered in Europe. In general, it is our policy to expense research and development costs. No similar expense was incurred during the same period for the prior year.

New market development expense decrease by \$16,298 from \$30,291 for the nine months ended September 30, 2003 compared to \$13,993 for the nine months ended September 30, 2004. The decrease was due to fewer new EPO dosages or indications being introduced in 2004. In addition, the provision for doubtful debts decreased by \$23,852 from \$44,668 for the nine months ended September 30, 2003 compared to \$20,816 for the nine months ended September 30, 2004 due to our tightening of our credit policy in China. Finally, interest expense decreased by \$3,097 from \$5,251 for the nine months ended September 30, 2003 compared to \$2,154 for the nine months ended September 30, 2004 due to the payoff certain loans in early 2003.

**Net and Comprehensive Loss.** We had a net loss and a comprehensive loss of \$849,576 for the nine months period ending September 30, 2004. Our net and comprehensive loss for the nine months period ended September 30, 2003 was \$1,253,034.

**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 nine-month period ended September 30, 2004. The loss per share for the nine-month period ended September 30, 2004 was \$0.04 compared to a loss of \$0.06 per share for the nine-month period ended September 30, 2003. Common stock issuable upon the exercise of common stock options and common stock warrants have been excluded from the net loss per share calculations as their inclusion would be anti-dilutive.

*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

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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. The gross margin from that one-time bulk sale was approximately 89%. 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. Interest income decreased during the year ended December 31, 2003 from the prior year primarily due to less cash balances attributed to a decrease in sales and incurring losses during the 2003 year.

**Expenses.** Total expenses for the year ended December 31, 2003 were \$4,552,789 consisting of selling, general and administrative expenses of \$3,391,430, depreciation and amortization of \$743,080, write off of land-use right and property and equipment of \$165,912, new market and EPO development expenses related to entering the European Market of \$216,560, provision for bad debt of \$29,450 and interest expense of \$6,357. Total expenses for the year ended December 31, 2002, were \$8,364,643 consisting of selling, general and administrative expenses of \$5,033,789, depreciation and amortization of \$736,361, write off of land-use right and property and equipment of \$6,731, new market development of \$200,109, provision for bad debt of \$216,709, loan interest expense of \$70,944, the development of insulin, G-CSF and rhTPO of \$2,100,000. In addition, we wrote down the amount owing from a related party from the Hepatitis B Vaccine Project by \$3,289,900.

Selling, general and administrative expenses of \$3,391,430 for the year ended December 31, 2003, primarily consisted of selling expenses of \$1,527,672, 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. Also included in selling, general, and administrative expenses were \$40,000 in fees paid to a director who provided consulting services. These fees were terminated during the year ended December 31, 2003. Selling, general and administrative expenses of \$5,033,789 for the year ended December 31, 2002 primarily consisted of selling expenses of \$2,094,820, office and miscellaneous expenses of \$213,657, legal and auditing of \$156,646, rent of \$394,004, travel of \$456,427, salaries and benefits of \$587,515, consulting fees of \$533,270, and management fees of \$247,968 including \$192,500 paid to two directors for services during the year ended December 31, 2002.

Selling, general and administrative expenses decrease by \$1,642,359 during the year ended December 31, 2003 from the prior year ended December 31, 2002 due to an extensive and aggressive streamlining of operations that the Company commenced in the later part of 2002 and continued through 2003. This included the reconfiguring and reduction of our sales staff, the closure of our representative offices in Hong Kong and Beijing and the overall reduction in the total compensation paid in the form of salaries and consulting and management fees, and the related travel costs those employees and consultants incurred. The reconfiguring and reduction of our sales staff in China resulted in savings of \$567,148 in the year ended December 31, 2003 compared to the year ended December 31, 2002. The closure of our representative offices in Hong Kong and Beijing resulted in an overall reduction of rent by \$16,870. The closure of these offices and the reduction in the number of consultants and administrative and management staff in our Vancouver, British Columbia office led to an overall reduction in compensation related expenses of \$500,173, as reductions in consulting and management fees of \$513,956 and \$207,968, respectively, were partially offset by an increase in salaries and benefits of \$221,751. The overall reduction in employees and consultants coupled with a more restrictive travel policy was the reason for a decrease in travel expenses of \$232,355 from the prior year.

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Depreciation of property and equipment and amortization of license and permit remained relatively the same of \$743,080 for the year ended December 31, 2003 compared to \$736,361 for the year ended December 31, 2002. We made no significant acquisitions during the year ended December 31, 2003.

During the year ended December 31, 2003, we wrote off land-use right and property and equipment of \$165,912 compared to \$6,731 during the prior year 2002. The write-off during the year ended December 31, 2003 was primarily related to equipment no longer in use.

New market development relates to marketing of potential new dosages of our EPO product and remained relatively the same for the years 2003 and 2002. During the year ended December 31, 2003, these expenses amounted to \$216,560 compared to \$200,109 for the year ended December 31, 2002.

Provision for doubtful accounts significantly decreased from \$216,709 during the year ended December 31, 2002 compared to \$29,450 for the year ended December 31, 2003. The provision for doubtful accounts decreased during the year ended December 31, 2003 as we tightened our credit policy in China.

Loan interest expense also decreased during the year ended December 31, 2003. Loan interest expense was \$70,944 during the year ended December 31, 2002 compared to \$6,357 for the year ended December 31, 2003. During the early part of the year ended December 31, 2003, we paid off certain loans which reduced the interest expense for that year.

Finally, during the year ended December 31, 2002, we spent \$2,100,000 to purchase the rights to develop of insulin, G-CSF and rhTPO from an affiliate of Longbin Liu, one of our directors which was expensed during the year. In addition, we wrote down \$3,289,900 of an amount owing from an affiliate control by Longbin Liu, related to the Hepatitis B Vaccine project due the concerns of our ability to collect on the debt and lack of collateral. No similar expenses were incurred during the year ended December 31, 2003.

**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

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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 September 30, 2004, we had \$2,283,072 in cash available. This cash, the \$1,571,659 in accounts receivable and anticipated sales will be used to fund ongoing operations and research and development. Working capital was \$4,347,812 at September 30, 2004. We have no long term liabilities.

During the nine-months ended September 30, 2004, we incurred losses of \$849,576 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.

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.

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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.

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.

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

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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 for EPO outside of China***

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.

### ***Product Registration Process for Pharmaceutical Products in China***

Regulations on the registration of pharmaceutical products ( Registration Regulations ) in China promulgated by the the SFDA in October 2002 and with effect from 1 December 2002 provide the legal framework for the administration of the registration of pharmaceutical products. Pursuant to the Registration Regulations, all the pharmaceutical products proposed to be launched in China market are required to be registered and obtain an approved pharmaceutical number granted by the SFDA. At this time, we have our EPO product approved by the SFDA in China and there is no other pending application for any other pipeline products.

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### ***Registration procedures***

The procedures for application for registration of pharmaceutical products can be generally divided into the following stages:

1. after completion of the pre-clinical research of the pharmaceutical products, application for registration of the pharmaceutical products shall be submitted to the drug regulatory authorities at the provincial level for review. In addition, the applicant of the registration of pharmaceutical products should provide the sample products of the pharmaceutical products to the China Examination Bureau of Pharmaceutical and Biological Products (the China Examination Bureau). China Examination Bureau will arrange for the conduct of examination of the sample products supplied by the relevant medicine examination institutes which will then issue the examination result report. The drug regulatory authorities at the provincial level after completion of its review may submit its opinion and report to the SFDA for review;

2. 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 pharmaceutical products;

3. 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 for pharmaceutical products under the Registration Regulations) at institutions with appropriate qualification;

4. after completion of the relevant clinical research, the applicant shall submit its clinical research report together with the relevant supporting documents to the drug regulatory authorities at the provincial level;

5. the drug regulatory authorities at the provincial level shall then review the relevant documents, conduct site inspection, sample examination and thereafter submit its opinion, inspection reports and other application materials to the SFDA for review; and

6. if all the regulations are complied with, a certificate of pharmaceutical products and a pharmaceutical approval number will be granted by the SFDA.

### ***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.

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

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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/Eprex 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 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***

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We are authorized to issue 50,000,000 shares of common stock, par value \$0.001, of which 20,602,000 were outstanding as of November 29, 2004. In addition, as of November 29, 2004, options and warrants to purchase 1,999,000 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.

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### ***Human Resources***

As of September 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.

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,

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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 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.



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### ***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, retirement or death, whichever occurs first. Shanxi Weiqida has arranged for the re-employment or retirement of approximately 80% 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.

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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.

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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 \$7,583,9