DRAGON PHARMACEUTICAL INC
Form 10-K
March 31, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

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

For the transition period from to

Commission File Number 0-27937

DRAGON PHARMACEUTICAL INC.

(Exact name of registrant as specified in its charter)

Florida	65-0142474
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

650 West Georgia Street, Suite 310
Vancouver, British Columbia V6B 4N9
(Address of Principal Executive Offices)

www.dragonpharma.com
(Registrant s Internet Address)

(604) 669-8817
(Registrant s telephone number including area code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value $0.001

Indicate by check mark if the registrant is a well-known seasoned issuer. As defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[ ] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of Accelerated filer , Large accelerated filer and Smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

[ ] Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X] Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes [ ] No [X]

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2009 was $14,812,877.

As of March 15, 2010, there were 67,066,418 shares of the Company s common stock, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

With the exception of historical facts stated herein, the following discussion may contain forward-looking statements regarding events and financial trends that may affect Dragon Pharmaceutical Inc. s future operating results and financial position. Such statements are subject to risks and uncertainties that could cause Dragon Pharmaceutical Inc. s actual results and financial position to differ materially from those anticipated in such forward-looking statements. Factors that could cause actual results to differ materially include, in addition to other factors identified in this report, that Dragon Pharmaceutical Inc. has a substantial amount of liabilities, all of which factors are set forth in more detail in the sections entitled Item 1A. Business Risks Associated With Dragon Pharmaceutical Inc. and Item 7. Management s Discussion and Analysis of Financial Conditions and Results of Operation herein. Readers of this annual report are cautioned not to put undue reliance on forward looking statements that are, by their nature, uncertain as reliable indicators of future performance. Dragon Pharmaceutical Inc. disclaims any intent or obligation to publicly update these forward looking statements, whether as a result of new information, future events, or otherwise except as required by law.

As used in this annual report, the terms we , us , our , the Company and Dragon Pharma shall mean Dragon Pharmaceutical Inc. and its subsidiaries unless otherwise indicated. Further, unless otherwise indicated, reference to dollars shall mean United States dollars.

General

Dragon Pharmaceutical is a leading manufacturer and distributor of a broad line of high-quality antibiotic products including Clavulanic Acid, 7-ACA, downstream cephalosporin active pharmaceutical ingredient (API) and formulated powder for injection in both Chinese and emerging markets.

The Company s headquarters, located in Vancouver, British Columbia, Canada, accommodates corporate functions such as corporate strategic planning, financial reporting, SEC compliance, corporate finance, risk management and entity-wide internal control oversight, and investor relations. The Company also has an office in Beijing, China, which manages the Company s marketing and sales for Chinese market and international market outside of China.

The Company currently has three production facilities in Datong, China, including two have been certified GMP (Good Manufacturing Practice) production facilities certified by the Chinese State Food and Drug Administration (SFDA): one facility producing bulk clavulanic acid, and another facility producing cephalosporin crude & sterilized bulk drugs and formulated powder for injection. The third facility produces bulk 7-ACA, a core intermediate for downstream cephalosporin antibiotics. 7-ACA is an intermediate and no GMP is required for the production facility. The Company currently has 44 formulated drugs approvals and 38 API approvals from the Chinese SFDA.

At the beginning of 2008, the Company has realigned its business segments into two divisions: Penicillin and Cephalosporin. This realignment better reflects the Company s business strategy to become a leading vertically integrated manufacturer and distributor of a broad line of high-quality antibiotic products. This realignment of business segments is part of the Company s strategic plan to focus on antibiotic product lines, thereby increasing market share and market position by first integrating product lines from intermediates to API and then, finally, to formulated finished products, and second to developing new pipelines within the Company s product lines to horizontally leverage current resources for future growth. Formulated drugs under the Cephalosporin division are targeted at the Chinese markets while bulk intermediate and API from both Cephalosporin and Penicillin divisions are sold in both Chinese and selected international markets.

Corporate History

The Company was originally formed on August 22, 1989, as First Geneva Investments, Inc. First Geneva Investments was formed for the purpose of evaluating and acquiring businesses. On August 17, 1998, the Company acquired Allwin Newtech Ltd., a British Virgin Islands corporation. Allwin Newtech Ltd. was formed on February 10, 1998, for the purpose of developing pharmaceutical products in China. Allwin Newtech owned certain technology used to enhance the efficiency of producing erythropoietin or EPO. On September 21, 1998, First Geneva Investments changed its name to Dragon Pharmaceutical Inc.

From 1998 to 2002, the Company successfully developed the biotech business with the generic version of Erythropoietin (EPO), an injectable that stimulates red blood cell development. The Company produced EPO in China and sold to 9 emerging markets including China, India, Brazil, Egypt, Peru, Dominican Republic, Trinidad-Tobago, Ecuador and Kosovo.

On January 12, 2005, the Company completed the acquisition of Oriental Wave Holding Ltd. (Oriental Wave). Oriental Wave was principally engaged in the production and sale of pharmaceutical products. In connection with the acquisition of Oriental Wave, the Company issued 44,502,004 shares of common stock to the three prior owners of Oriental Wave. As a result, these three prior owners of Oriental Wave collectively owned 70.78% of the Company s then outstanding shares. The acquisition of Oriental Wave allowed the Company to expand the Company s range of products, leverage both companies marketing networks in China and in international markets, and improve the Company s ability to execute the Company s combined business strategy.

Oriental Wave, was the sole shareholder of Shanxi Weiqida Pharmaceutical Ltd. (Shanxi Weiqida), a China based pharmaceutical company engaged in the production, marketing and sale of pharmaceutical intermediates, active pharmaceutical ingredients and generic formulation drugs. Shanxi Weiqida Pharmaceutical Ltd was primarily 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. 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, 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 $5.1 million. Shanxi Tongling was founded in 1994 by Mr. Han, the Company s current Chairman of the Board and Chief Executive Officer.

In April 2002, Shanxi Weiqida acquired from Shanxi Tongzhen Pharmaceutical Co. Ltd., or (Tongzhen) all of its product licenses and production permits in consideration for assuming approximately RMB 6.7 million, or approximately $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 $4.1 million. At the time of the transaction, Mr. Han was also the Chairman of Aurobindo Tongling (Datong).

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. Subsequently, Shanxi Weiqida transferred such obligation to the buyer of part of the Company s Pharma division in 2006.

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 manufacturing facility was completed in December 2003 and pilot production of 7-ACA commenced on July 1, 2004. In July 2005, the Company started to ramp up the production.

In August 2005, the Company closed its biotech production facility in Nanjing, China and started the relocation of the biotech production facility to a site next to the Chemical division campus in Datong, China. The Company received GMP certification for this facility from the Chinese SFDA on December 29, 2005 and production at this facility started during the first quarter of 2006.

Shanxi Weiqida s head office is located in a special economic region in China. Pursuant to the Chinese Corporate Income Tax Law approved on March 16, 2007, the applicable income tax rate for Shanxi Weiqida starting 2008 is 25%.

On June 29, 2006, the Company signed an agreement with an arms-length third party to sell part of its former Pharma division, including all the formulation production facilities located in the Economic Development Zone in Datong, China, 258 drug approvals from the Chinese SFDA, 900 employees and the whole direct sales team to hospitals for the formulation business and related inventories, account receivables and account payables. The total selling price for the assets was $13.32 million. The transaction was completed on July 1, 2006. In addition, the Company also signed a separate agreement, with an amendment on July 28, 2006, to deliver international registration documentation and services on a related product to this arm-length third party. This documentation and services agreement was valued at $1.5 million and was completed in September, 2006.

Subsequent to the sales of part of the Pharma division, Oriental Wave transferred the ownership of Shanxi Weiqida to Allwin Biotrade Inc., another wholly owned subsidiary of the Company.

On November 5, 2007, the Company signed an agreement with a non-affiliated third party to sell certain fixed assets and certain net working capital of the biotech business for US$ 2.14 million (or RMB 15.6 million).

At the beginning of 2008, the Company realigned its business segments into two divisions: Penicillin and Cephalosporin. This realignment of business segments is part of the Company s strategic plan to focus on antibiotic product lines, thereby increasing market share and market position by first, integrating product lines from intermediates to API and then, finally, to formulated finished products, and second, to developing new pipelines within the Company s product lines to horizontally leverage current resources for future growth.

Recent Events

On January 22, 2010, the Company announced that in a letter dated January 15, 2010, Mr. Yanlin Han, Chairman and CEO of the Company, has made a non-binding proposal to acquire all of the outstanding shares of the Company for a price of $0.80 per share. Dragon s common stock quoted on OTCBB and traded on Toronto Stock Exchange closed at $0.60 per share and at CAD $0.63 per share, respectively, on January 22, 2010. Mr. Han is the largest shareholder of the Company owning 37.95% of the total outstanding shares. Mr. Han s letter indicates that his proposal is conditioned upon satisfactory completion of due diligence, negotiation of definitive transaction documents, receipt of the requisite financing commitments and receipt of necessary board approval.

The Board of Directors of the Company has established a Special Committee of independent directors consisting of Peter Mak, Chairman, and Dr. Jin Li and Dr. Heinz Frey to act on behalf of Dragon Pharma with respect to consideration of the proposal and other strategic alternatives.

On March 26, 2010, the Company entered into an Agreement and Plan of Merger by and among, Chief Respect Ltd., Datong Investment Inc., a wholly owned subsidiary of Chief Respect Ltd., and Mr. Yanlin Han, the Company's Chairman, Chief Executive Officer and largest shareholder. Chief Respect Ltd. is a Hong Kong corporation owned by Mr. Han. Under the terms of the Agreement and Plan of Merger, Mr. Han will acquire shares of Dragon common stock not owned by him for $0.82 per share in cash. The transaction is expected to close in the second quarter of 2010 and is subject to certain closing conditions, including approval by Dragon Pharma s shareholders, meeting certain requirements of the Toronto Stock Exchange, and other closing conditions set forth in the merger agreement. Under Florida law, the adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares entitled to vote. Under the rules of the Toronto Stock Exchange, the merger agreement must be approved by the holders of a majority of the outstanding shares entitled to vote, excluding the votes of those shares owned by Yanlin Han.

Business Segments

Prior to January 1, 2008, the Company originally operated three key business units consisting of a Chemical division for bulk pharmaceutical API and intermediates such as clavulanic acid and 7-ACA, a Pharma division for formulated drugs with a focus of cephalosporin antibiotics and a Biotech division for EPO . However, during the quarter ended September 30, 2007, the Company decided to sell the Biotech division and therefore it has been reclassified as a discontinued operation.

Starting on January 1, 2008, the Company has realigned its business segments into two divisions: Cephalosporin and Penicillin divisions. This realignment better reflects the Company s business strategy to become a leading vertically integrated manufacturer and distributor of a broad line of high-quality antibiotic products.

Penicillin Division:

The Penicillin division currently operates the production and sales of clavulanic acid, cefalexin and cefadroxil. The Company is the first manufacturer of clavulanic acid in China and currently the market leader in the Chinese market. In addition, as the largest exporter of such product from China, the Company is among the top leading suppliers in other emerging markets such as India. During 2008, the Company expanded the product portfolio to include cefalexin and cefadroxil under the Penicillin division.

Clavulanic acid. Clavulanic acid is a compound with poor anti-bacterial activity, but is a good inhibitor for Beta-lactamase. The use of such compound with penicillin molecules increases effectiveness against Beta-lactamase producing strains of pathogens. The combination of clavulanic acid and amoxicillin can be used against a variety of Beta-lactamase producing Gram positive and Gram negative bacteria. Clavulanic acid enhances the activity of amoxicillin as a broad spectrum antibiotic because of its powerful inhibitory effect on many Beta-lactamase enzymes. Clavulanic acid itself has little useful therapeutic activity.

The Company s clavulanic acid technology and production process was licensed and transferred from Alpha Process Trust Reg., or Alpha Trust, an Italian company. Starting in January 2004, the Company became the first commercial scale producer of clavulanic acid in China. Before the Company started to supply to the Chinese market, clavulanic acid was imported at a relatively high price into China. As the Company continued producing in China and started to sell the products locally at a competitive price, the total market size expanded as the Company made it more affordable to the market which further induced the demand for such products.

By being the first producer of clavulanic acid in China, the Company believes it has a competitive advantage over other manufacturers to fulfill demands for clavulanic acid in the Chinese market as well as internationally outside of China. Currently, the Company produces and sells 12 types of clavulanic acid formulated mixed powder in bulk form in the Chinese market as well as 7 other emerging markets including, India, South Korea, Jordan, Indonesia, Pakistan, Egypt & Mexico.

The production for clavulanic acid was started in January 2004 with an initial designed annual production capacity of 30 tons. However, with the increasing demand of such products in the Chinese and other emerging markets together with the Company s investment in process optimization and technology improvement, as at the end of 2009 fourth quarter, the production capacity increased to 135 tons from 78 tons per annum through the improvement in the fermentation yield.

According to the estimate from Healthoo.com, an industry analyst for the pharmaceutical industry in China, only approximately 10% of amoxicillin sold in the Chinese market was combined with clavulanic acid. The adoption rate is much lower than in the US and European markets due to the fact that population in the emerging markets started to use amoxicillin much later than their counterparts in the US and Europe and therefore, drug resistant cycle in emerging countries is at its initial stage. Comparatively, US and European populations started to take amoxicillin much earlier than populations in the emerging markets, such as China and India, and therefore a majority of amoxicillin sold in US and Europe markets has already been combined with clavulanic acid to fight resistance. It is therefore widely expected that the adoption rate of clavulanic acid with amoxicillin in the emerging markets will eventually catch up to US and European levels as the resistant cycle continues to advance.

Cefalexin. Cefalexin, a Penicillin G downstream product, is a first-generation cephalosporin antibiotic, but its chemical composition makes it effective in treatment of patients that show sensitivity to penicillin drugs. Cefalexin is widely used to treat urinary tract infections, respiratory tract infections, and skin and soft tissue infections. In January 2008, the Company introduced cefalexin into its product portfolio. Currently, with 840 tons annual capacity, the Company is one of the three leading suppliers of such product in the Chinese market.

Cefadroxil. Cefadroxil, also a Penicillin G downstream product, is a first-generation cephalosporin antibiotic that is the para-hydroxy derivative of cefalexin, and is used similarly in the treatment of mild to moderate susceptible infections such as the bacteria Streptococcus pyogenes , otherwise known as strep throat, and skin and urinary tract infections. Currently, the Company has a capacity of 120 tons per annum and mainly supplies to the Chinese market.

Cephalosporin Divison:

The Cephalosporion division operates the production and sales of 7-ACA, its downstream APIs and cephalosporin formulated finished drugs. 7-ACA is a core intermediate for over 50 cephalosporin downstream API and formulated finished drugs. The Company is not only one of the key producers of 7-ACA in the world with its 780-ton production facility, but also the largest exporter of 7-ACA from China. In addition, the Company is also one of the market leaders in two very important and growing markets: China and India.

Besides 7-ACA, the Company also offers downstream API products including ceftazidime (crude powder), cefuroxime (crude powder & sterilized bulk), ceftrixone (sterilized bulk) and cefalotin. Formulated finished products include 33 dosage forms from 11 different types of cephalosporin powder for injection. The Company plans to continue to increase its 7-ACA production capacity through technological innovation. In addition, the Company will also expand the API and formulated powder for injection offerings in order to take advantage of the Company being one of the key producers of 7-ACA in the world.

Pharmaceutical Intermediate

7-ACA. 7-ACA is made from cephalosporin C and is a core intermediate for over 50 downstream synthesizing cephalosporin antibiotics, the -lactam antibiotics family. Produced by the fermentation of a filamentous fungus (cephalosporium acremonium now known as acremonium chrysogenum), cephalosporin C in the fermentation broth is isolated from the biomass by filtration. The strongly hydrophilic cephalosporin C is purified by laborious absorption and ion exchange steps. Cephalosporin C can be a free acid or a salt (sodium, potassium or zinc). The conversion of cephalosporin C to 7-ACA has two methods, a chemical process and an enzymatic process. During 2008, the Company had the capability to produce via the enzymatic method in addition to the chemical method which was originally adopted since 2004. However, starting in the beginning of 2009, the Company has already converted all the 7-ACA production lines into the enzymatic method in order to further lower the production cost by eliminating the use of hazardous chemicals. Currently, the Company uses part of the 7-ACA for its own downstream products and sells the remaining to both Chinese market and international market outside of China, especially India. Starting 2009, the Company also included other 7-ACA derivative intermediate such as D-7ACA into its product portfolio.

Cephalosporin Crude and Sterilized Bulk Drug

Ceftazidime. In January 2008, the Company added ceftazidime in crude powder form to its product portfolio. Ceftazidime is a third-generation cephalosporin antibiotic, a downstream product for 7ACA, and has broad-spectrum activity against gram-positive and gram-negative bacteria. It is mainly used for infections of the respiratory tract, the skin, urinary and genital tracts, septicemia, the abdominal cavity, and the central nervous system. Company s current capacity for ceftazidime crude bulk drug is 216 tons per annum with which part of the production is for self use in downstream products and the remaining is for external sales in the Chinese market.

Cefuroxime. Cefuroxime is a second generation cephalosporin antibiotic, chemically similar to penicillin. It is effective against a wide variety of bacterial organisms, such as Staphylococcus aureus, Streptococcus pneumoniae, Haemophilus influenzae, E. coli, N. gonorrhoeae, and many others. Cefuroxime is especially effective against susceptible bacterial infections of the middle ear, tonsillitis, throat infections, laryngitis, bronchitis, and pneumonia. It is also used in treating urinary tract infections, skin infections, and gonorrhea. The Company plans to launch the production of the bulk crude powder as well as sterilized cefuroxime in 2009 with an annual capacity of 216 tons and 60 tons respectively, which will be used partially for the Company s own downstream formulated powder for injection and partially for external sales in the Chinese market.

Ceftriaxone. Ceftriaxone is a third-generation cephalosporin antibiotic. Like other third-generation cephalosporins, it has broad spectrum activity against Gram-positive and Gram-negative bacteria. Ceftriaxone is often used for the treatment of community-acquired or mild to moderate health care-associated pneumonia. It is also a choice drug for treatment of bacterial meningitis.

Cefalotin. Cefalotin is a first-generation cephalosporin antibiotic. It was the first cephalosporin marketed and continues to be widely used. Cefalotin will prevent the bacteria from forming an adequate and protective cell wall. This results in instability and subsequent death of the bacteria.

Cephalosporin Formulated Powder for Injection

The Company currently owns drug approval for 12 types of cephalosporin formulated powders for injection (in 44 different dosages) from the Chinese SFDA and has launched 11 types of powders for injection (in 33 different dosages) in the Chinese market, including ceftriaxone, ceftazidime, cefoperazone, cefoperazone-sulbactam, cefuroxime, cefazolin, cefminox, cefonicid, cefoxitin, ceftizoxime, and pantoprazole.

The Company plans to expand its current product offerings to cover more cephalosporin powder for injection and to gain market share by focusing on the fast growing rural area markets so as to achieve the ultimate goal to become one of the top leading cephalosporin antibiotic suppliers in China.

The management will continue to focus on accelerating the exploration of rural market development in order to further enlarge market share of the Company s finished products in the Chinese market. Approximately, 55% of China s 1.32 billion population (or 726 million) live in rural areas, as compared to 45%, or 593 million people, that live in the urban area. According to the recently approved medical reform plan announced on January 21, 2009, the Chinese government planned to spend US$123 billion by 2011 on the healthcare system, emphasizing the development of infrastructure for rural healthcare services, with an intent to equal services currently available in the urban areas. Therefore, significant funding from the central government will continue to be injected into the healthcare infrastructure for rural areas. In addition, the Chinese government s contribution, especially to the participants of national medical insurance program, will increase significantly. These relevant factors may lead to the continuous growth in the demand of basic pharmaceutical products, such as antibiotics in the rural area.

Discontinued Operations: Biotech Division

The sole product of the Biotech division was erythropoietin or EPO, an injectable that stimulates red blood cell development.

During the fourth quarter of 2007, the Company determined that the biotech business was not aligned with the Company s current core business strategy of focusing on its antibiotics intermediate and downstream formulation portfolio, and consequently, reached an agreement with a non-affiliated third party to sell the assets of the biotech operations. As a result, this biotech operation has been categorized as discontinued. According to the agreement, the buyer agreed to pay the Company a total of US$ 2.14 million (or RMB 15.6 million) in exchange for certain fixed assets and certain net working capital of the biotech business. As a result of the sale, intangible assets of $2.14 million and goodwill of $0.97 million related to the biotech division were written off during the year ended December 31, 2007. These intangible assets and goodwill in the Biotech division were created as a result of the reverse take-over of Dragon Pharmaceutical Inc. by Oriental Wave on January 12, 2005. The write-off of the Biotech division s intangible assets and goodwill had no cash impact to the Company s financial results, but created a loss from discontinued operations in 2007. Excluding the impact of the non-cash write-off of the intangible assets and goodwill, the Biotech division would have been profitable for 2007 with an income of $0.18 million before write-off of intangible assets and goodwill.

Products

The following table describes the top five products of the Company in terms of revenue contribution from continuing operations.

Product	Category / Presentation	Treatment	% of 2009 Revenues	% of 2008 Revenues
7-ACA	Pharmaceutical intermediate / Bulk	7-ACA is a core intermediate for cephalosporin antibiotics	23.785	32.67%
Ceftazidime	Crude powder / Bulk	Ceftazidime is used in treating infections of the respiratory tract, the skin, urinary and genital tracts, septicemia, the abdominal cavity, and the central nervous system.	18.10%	9.94%
Cefalexin/Cefadroxil	Sterilized bulk drug/ Bulk	Cephalexin is used in treating urinary tract infections, repiratory tract infections, skin and soft tissue infections. Cefadroxil is for use to treat strep throat, skin and urinaru tract infections.	10.68%	13.00%
Amoxicillin Clavulanic Potassium (5:1)	Sterilized bulk drug / Bulk	Amoxicillin Clavulanic Potassium is used in treating many different types of bacterial infections, such as sinusitis, pneumonia, ear infections, bronchitis, urinary tract infections, and skin infections.	7.11%	6.00%
Ceftriaxone	Crude powder/Bulk	Ceftriaxone is used in treating community-acquired or mild to moderate health care-associated pneumonia, bacterial meningitis, lyme	6.83%	7.95%

	disease, typhoid fever and gonorrhea.		
Total		66.50%	69.56%

Sales and Marketing

Geographical Breakdown

Formulated drugs under the Cephalosporin division are targeted at the Chinese markets while bulk intermediate and API from both Cephalosporin and Penicillin divisions are sold in both Chinese and selected international markets.

	2009		2008	
Total Company (Continuing Operations)	$ million	% of Revenues	$ million	% of Revenues
-China	133.64	81%	125.76	83%
-International	32.13	19%	26.19	17%
	165.77	100%	151.95	100%
By Division:				
Penicillin Division				
-China	35.81	68%	34.85	72%
-International	16.97	32%	13.32	28%
	52.78	100%	48.17	100%
Cephalosporin Division				
-China	97.83	87%	90.91	88%
-International	15.16	13%	12.87	12%
	112.99	100%	103.78	100%

81% and 83% of the Company s revenues for 2009 and 2008, respectively, were derived from the Chinese market while the remaining 19% and 17% for 2009 and 2008, respectively, were from international customers outside of China. The increase in the contribution of the international market in 2009 was mainly because of the growth in Clavulanic Acid products as well as Cephalosporin bulk drugs in the international market outside of China.

Sales Models/Customers

The Company maintains different sales models for different products:

For formulated finished products (such as cephalosporin powder for injection under the Cephalosporin division), the Company s sales department sells directly to regional distributors, which in turn sell to their customers which are mainly hospitals throughout China.

For bulk pharmaceutical intermediate (e.g. 7-ACA) and API products (e.g. Clavulanic Acid, cefalexin, cefadroxil, ceftazidime crude bulk drug), the Company s sales department sells directly to both Chinese customers and international customers outside of China which are pharmaceutical companies using the Company s products to make their own downstream pharmaceutical products.

During 2009 and 2008, sales to the Company s five largest customers accounted for approximately 46% and 37% of the Company s sales, respectively; while sales to the Company s largest customer accounted for approximately 13% and 12% of the Company s sales, respectively. The Company has historically made its sales through purchase orders

and not through long-term contracts.

Pricing Policy

All formulated finished products (such as cephalosporin powder for injection under the Cephalosporin division) are subject to retail price control imposed by the Chinese SFDA. The main objective of such price control policy is to set an upper limit to the retail prices of pharmaceutical products in order to prevent excessive price increases.

All of the Company s other products such as bulk pharmaceutical intermediate (e.g. 7-ACA) and API products (e.g. Clavulanic Acid, cefalexin, cefadroxil, ceftazidime crude bulk drug, cefuroxime, ceftriaxone sodium and cefalotin) are market priced products and therefore are not subject to any government price control.

Facilities

The Company has an office in Vancouver, Canada that houses certain corporate functions, such as financial reporting, risk management and entity-wide internal control oversight, SEC compliance, corporate finance, and investor relations. In addition, the Company also has a sales office in Beijing, China that houses the sales and marketing team for both the Chinese and international markets.

The Company currently owns three production facilities in Datong, China, including two that have been certified GMP production facilities by the Chinese SFDA : one facility producing bulk clavulanic acid and one facility with a capacity of producing cephalosporin crude & sterilized bulk drugs and formulated powder for injection. The third facility produces bulk 7-ACA, a core intermediate for downstream cephalosporin antibiotics. 7-ACA is an intermediate and no GMP is required for the production facility.

The production campus for 7-ACA and clavulanic acid has a total area of approximately 947,200 square feet. This fully integrated production campus also houses the entire production infrastructure, such as the power supply, boiler, steam and chilled water facilities and a water treatment plant. The land use right for this campus expires in August 2053.

In the past, the Company has used contract manufacturers to produce the cephalosporin powder for injection. As the Company s sales volume and market share for its formulation products continue to increase in the Chinese market, the Company purchased a 84,000 square feet manufacturing facility with a production line for cephalosporin powder for injection. This facility also includes several workshops for other crude sterilized bulk drugs for cephalosporin antibiotics. This allows the Company to ensure enough production volume to meet growing demand of the Company s products and better control of its manufacturing cost as well as product quality assurance.

The Company s current 7-ACA and Clavulanic Acid product facilities have reached its maximum capacity. As a result, the Company has acquired a land use right for a piece of land located in the suburban area of Datong city to build the new 7-ACA and Clavulanic Acid production facilities with expanded capacities. It is the management s current estimate that a capital expenditure of $100 million will be required for these two new facilities. Regarding the existing 7-ACA and Clavulanic Acid production facilities, the Datong City Government has indicated that it would fully compensate the Company as an incentive to move to the new location by the end of 2010 when the new facilities are expected to be completed. The estimated relocation compensation is $36 million, including fixed assets (cost of land use right, building and fixtures) that cannot be relocated to the new location. The Company does not expect any loss from the relocation. Final agreement is yet to be signed with the government. As at December 31, 2009, the Company received $16,673,000 (RMB114 million) advance of the compensation from the Government.

Competition

For pharmaceutical intermediate and API, world production was traditionally concentrated in Europe, a base for large scale fermentation activities. However, with the growing importance of generic drugs as a result of an increasing number of commonly used drugs being off-patent and global pressure on cutting medical expenses, there is a global trend of shifting the production base from the traditional base in Europe to selected emerging countries, especially China. China has already become a competitive powerhouse in terms of producing certain types of pharmaceutical intermediate and API. For example, 80% of vitamin C, 80% of Penicillin G, 70% of 7-ACA, 30% of Amoxicillin worldwide are currently produced in China.

Clavulanic acid. In 2004, the Company first started the production of clavulanic acid. Since then, the Company has maintained its market leadership in China. There are currently two other producers of bulk clavulanic acid in China: Shangdong Lunan Pharmaceutical and The United Laboratories. However, the scale of these competitors is smaller than the Company. According to an analyst report issued in May, 2007 by Healthoo.com, an industry analyst of the pharmaceutical industry in China, the Company sold to 80% of downstream formulation companies in China which purchased clavulanic acid to be included in their downstream finished products during 2006.

As the largest exporter of clavulanic acid from China, the Company currently exports to 7 emerging markets and is among the top suppliers in India, which has been an important worldwide hub for producing generic formulation drugs supplied to the rest of the world. For the emerging markets outside of China, the Company faces competition mainly from European manufacturers. Among them, Lek Pharmaceutical and Chemical Company of Slovenia, SmithKline Beecham Pharmaceuticals of Britain, Deva Holding A.S. of Turkey, Amifarma S.L. of Spain and DSM N.V. of the Netherlands, are the leading manufacturers of clavulanic acid. However, on October 2, 2008, DSM N.V. announced that it would close down the clavulanic acid production site in Sweden by the end of 2009 citing that DSM cannot maintain a profitable manufacturing activity for the product in Sweden.

7-ACA. The Company currently sells 7-ACA to both the Indian and Chinese market. India is an important worldwide hub for producing generic formulation drugs supplied to the rest of the world. Other companies directly competing in the worldwide market include Antibioticos (a subsidiary of the Fidia Group of Italy), Biochemie, (a subsidiary of Novartis of Switzerland) and several other Chinese producers. However, the Company has maintained a long-term supply relationship with Aurobindo Pharma, one of the top 5 largest pharmaceutical companies by export value and revenues, and so far, the Company s export to India has been exclusively to Aurobindo Pharma.

In China, the Company mainly faces competitions from China Pharma, Fuzhou Pharma and the United laboratories. The management of the Company believes that we are the third largest producers of 7-ACA in China, which places the Company among the largest producers worldwide.

Cephalosporin Powder for Injection The Company s cephalosporin powder for injection currently only addresses the Chinese market as it represents one of the fastest growing markets in the world. Current Chinese market size for cephalosporin injectable is estimated to be 4.5 billion units and is expected to increase 15% annually in the next 5 years. The cephalosporin finished formulation market, including the injectable and oral segments, is highly fragmented and competitive, with over 400 downstream formulation companies manufacturing finished products, out of which only 3 companies have more than 3% market share. In addition, out of the top 20 cephalosporin downstream formulation companies, only 3 have direct access to its own cephalosporin intermediate and API. All other cephalosporin downstream formulation companies do not produce the upstream intermediate and API themselves and are relying on purchased materials for their finished products. Given the level of fragmentation in the sector, the management of the Company expect that the industry will further consolidate and only companies who control the sources of materials, i.e. intermediate (7-ACA) and API will eventually have the ability to consolidate other market participants. The Chinese market is mainly led by three producers of cephalosporin formulated products, namely, Harbin Pharma Group, Shanghai Pharma Group, Hainan Tongyong Sanyang Pharma, among over 400 other market participants. Harbin is also a producer of 7-ACA but its 7-ACA production cannot fully fulfill its own demand for its downstream formulated products. The Company s current strategy is to focus on accelerating the exploration of rural market development in order to further enlarge market share of the Company s finished products in the Chinese market. As the rural market is expanding rapidly given the Chinese government s plan to spend US$123 billion by 2011 for the healthcare system, with the emphasis on accelerating the development of the rural healthcare services infrastructure to match such infrastructure in the urban area. Company management believes that the Company has a competitive advantage in gaining market share in the untapped growth in the rural areas where the Company s reputation as a quality and reliable producer of both upstream and downstream cephalosporin products is well known.

Intellectual Property, Government Approvals and Regulations

Intellectual Property

The Company, through its subsidiary, Shanxi Weiqida, has 7 registered trademarks in China. Currently, the Company has submitted an application for a patent on a production technique. Since all of the Company s products are generic drugs, they are not protected by any intellectual property rights except for their trade names.

Regulation of the Chinese Pharmaceutical Industry

As a manufacturer of pharmaceutical products, the Company is subject to regulation and oversight by different levels of the food and drug administration in China, in particular, the Stated Food and Drug Administrator (SFDA). The Law of the PRC on the Administration of Pharmaceuticals as amended on February 28, 2001, provides the basic legal framework for the administration of the production and sale of pharmaceuticals in China and covers the manufacturing, distributing, packaging, pricing and advertising of pharmaceutical products in China. Its implementation regulations set out detailed implementation rules with respect to the administration of pharmaceuticals in China. The Company is also subject to other PRC laws and regulations that are applicable to manufacturers and distributors in general.

Pharmaceutical Product Manufacturing

Permits and Licenses for Pharmaceutical Manufacturers

A manufacturer of pharmaceutical products must obtain a pharmaceutical manufacturing permit from the provincial food and drug administration. This permit, once obtained, is valid for five years and is renewable upon its expiration. Our current pharmaceutical manufacturing permit will expire on December 31, 2010. Company management does not believe it will be difficult to renew the pharmaceutical manufacturing permit. In addition, before commencing business, a pharmaceutical manufacturer must also obtain a business license from the relevant administration for industry and commerce.

Good Manufacturing Practices

A manufacturer of pharmaceutical products and raw materials must obtain the GMP certification to produce pharmaceutical products and raw materials in China. GMP certification criteria include institution and staff qualifications, production premises and facilities, equipment, raw materials, hygiene conditions, production management, quality controls, product distributions, maintenance of sales records and manner of handling customer complaints and adverse reaction reports. A GMP certificate is valid for five years. A manufacturer is required to obtain GMP certificates to cover all of its production operations.

Generally, GMP certificates are valid for five years and the management of the Company does not believe it will be difficult for the Company to renew any of our GMP certificates. The following table summarizes the most recent GMP certificates the Company obtained for each of its manufacturing facilities:

	Issue Date	**Expiration Date**
Clavulanic Acid	January 24, 2006	September 15, 2010
Cefalexin/ Cefadroxil	February 1, 2008	January 31, 2013
Cephalosporin Sterilized Bulk Drug	March 23, 2009	March 22, 2014
Cephalosporin Powder for Injection	August 3, 2007	August 2, 2012

Price control

The retail prices of certain pharmaceuticals sold in China, primarily those included in the national and provincial Medical Insurance Catalog and those pharmaceuticals whose production or trading are deemed to constitute monopolies, are subject to price controls in the form of fixed prices or price ceilings. Manufacturers and distributors cannot set the actual retail price for any given price-controlled product above the price ceiling or deviate from the fixed price imposed by the government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the respective pharmaceutical companies, subject to notification to the provincial pricing authorities. Sales of pharmaceutical products by pharmaceutical manufacturers in China to overseas markets are not subject to any price control.

Currently, the Company s cephalosporin powder for injections (under the Cephalosporin division) are subject to retail price control imposed by Chinese government administration authorities. The main objective of the price control policy is to set an upper limit to the retail prices of pharmaceutical products in order to prevent excessive increases in prices paid by the end consumers. The Company s other intermediate and bulk API products manufactured under both the Cephalosporin and Penicillin divisions are, therefore, not subject to any price control policy.

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Reimbursement

China established a basic medical insurance system for urban employees in 1998 and implemented a new cooperative medical care system for rural residents since 2003. According to figures published by the PRC Ministry of Labor and Social Security, as of December 31, 2007, 616 million people, or approximately 46.7% of the whole population in China were enrolled in one of these two programs. Out of these 616 million participants, 220 million are from the urban area while the remaining 396 million people are from the rural areas. Currently, the level of coverage under the National Medical Insurance Programs for the urban area, and the rural area, are different.

For rural areas, depending on the standard set by each province, there is a minimum coverage of RMB 100 (or approximately US$ 15) per program participant per year. 80% of such funding comes from the government while the remaining 20% comes from the program participant. Under the new medical reform plan approved by the Chinese State Council on January 21, 2009, the minimum subsidy from the government will increase to RMB 120 (or approximately US$18) per program participant per year.

For urban areas, most program participants are urban residents who are currently employed or retired. Participants of the National Medical Insurance Program and their employers are required to contribute to the payment of insurance premiums on a monthly basis. The total amount of reimbursement for the cost of medicines, in addition to other medical expenses, for an individual participant under the National Medical Insurance Program in a calendar year is capped to the amounts in that participant s individual account under the program. The amount in a participant s account varies, depending on the amount of contributions from the participant and his or her employer. Generally, on average, participants under the National Medical Insurance Program who are from relatively wealthier parts of China and metropolitan centers have greater amounts in their individual accounts than those from less developed provinces.

The government announced a plan to expand the insurance coverage in the urban areas to include all children, students and unemployed persons. Program participants are eligible for full or partial reimbursement of the cost of medicines included in the national Medical Insurance Catalog, which is divided into two tiers. Purchases of Tier A medicines are fully reimbursable, but certain Tier A medicines are only reimbursable if the medicine is used for a particular stated purpose in the Medical Insurance Catalog. Purchasers of Tier B medicines are required to make a certain percentage of co-payments, with the remaining amount being reimbursable. The percentage of reimbursement for Tier B medicines varies in different regions in the PRC. Factors that affect the inclusion of medicines in the Medical Insurance Catalog include whether the medicine is consumed in large volumes and commonly prescribed for clinical use in China and whether it is considered to be important in meeting the basic healthcare needs of the general public. The PRC Ministry of Labor and Social Security, together with other government authorities, has the power every two years to determine which medicines are included in the national medicine catalog, under which of the two tiers the included medicine falls, and whether an included medicine should be removed from the catalog. Provincial governments are required to include all Tier A medicines listed on the national Medical Insurance Catalog in their provincial Medical Insurance Catalog. For Tier B medicines listed in the national Medical Insurance Catalog, provincial governments have the discretion to adjust upwards or downwards by no more than 15% from the number of Tier B medicines listed in the national Medical Insurance Catalog that is to be included in the provincial Medical Insurance Catalog.

On January 21, 2009, the Chinese State Council passed a long awaited medical reform plan which promised to spend approximately US$ 123 billion by 2011 to provide universal medical service to the country s 1.3 billion population. The medical reform plan includes the following key measures to be implemented by 2011:

- Increase the amount of rural and urban population covered by the basic medical insurance system or the new rural cooperative medical system to at least 90 percent of the population by 2011.
- Gradually provide equal public health services in both rural and urban areas in the country.
- Improve services of grassroots medical institutions, especially hospitals at county levels, township clinics or those in remote villages, and community health centers in less developed cities.
- Launch a pilot program starting from this year to reform public hospitals in terms of their administration, operation and supervision, in order to improve the quality of their services.

Currently, 32 out of 33 types of the Company s cephalosporin powder for injections launched in the Chinese market are included in the national Medical Insurance Catalog, which means the end consumers will be eligible for reimbursement as described above.

Product Liability and Protection of Consumers

Product liability claims may arise if the products sold have any harmful effect on the consumers. The injured party can bring a claim for damages or compensation. The General Principles of the Civil Law of the PRC, in effect since January 1987, states that manufacturers and sellers of defective products causing property damage or injury shall incur civil liabilities.

The Product Quality Law of the PRC was enacted in 1993 and amended in 2000 to strengthen quality control of products and protect consumers rights. Under this law, manufacturers and distributors who produce and sell defective products may be subject to the confiscation of earnings from such sales, the revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

Research and Development

As a pharmaceutical manufacturer, Company s research and development activities mainly focus on the improvement of product quality, production technology and production cost. In order to fulfill those objectives, the research and development department utilizes both internal and external resources, such as cooperation with universities and other research laboratories. For example, by the end of 2009, the Company has successfully converted all the 7-ACA production lines into the enzymatic method from the traditional chemical method in order to further lower the production cost by eliminating the use of hazardous chemicals. Furthermore, since 2007, the Company s subsidiary has been selected to work exclusively with the research team from the East China University of Science and Technology on a PRC government subsidized national-level R&D research project to increase the fermentation yield of the Company s 7-ACA production to the same level as seen in Europe. In addition, with the Company s investment in process optimization and technology improvement, as at the end of 2009 fourth quarter, the production capacity was reached 135 tons per annum through the improvement in the fermentation yield.

Total expenditures on research and development for the years ended December 31, 2009 and 2008 were $240,000 and $1,277,124, respectively.

Suppliers

The principal raw materials used for products include agricultural and petrochemical products, and certain active ingredients for our products. The majority of such raw materials, as well as packaging materials, are sourced from various independent suppliers in China, while a few specific active ingredients for our products are currently sourced from the US and Germany. In addition, the Company produces certain types of active ingredients used for the production of some of our cephalosporin finished products. In the case of sourcing raw materials from third parties, the purchase prices for the relevant raw materials are based on the prevailing market prices for such materials of similar quality. Our principal packaging materials include glass ampoules for injectables and external packaging and printed instructions for all of our pharmaceuticals.

Historically, the majority of our raw materials have been readily available. We generally maintain two vendors for each major raw material in order to diversify our vendor base and help to ensure a reliable supply of raw materials at reasonable prices. To date, raw materials shortages or price fluctuations have not had any material adverse effect on us. We also maintain a supplier evaluation scheme through which potential vendors are evaluated based on a number of factors including quality, timely delivery, cost and technical capability.

Employees

As of December 31, 2009, the Company had 8 employees in North America and approximately 2,398 employees in China. Employees in China are union members under the Chinese law and there have been no labor disputes.

ITEM 1A RISK FACTORS

An investment in the Company s common stock involves a high degree of risk. Before you invest, you should carefully consider the risks described below. If any of the following risks occur, the Company s financial condition or results of operations could be materially affected.

Our Chairman and Chief Executive Officer Has Offered to Acquire All Outstanding Shares Subject to Conditions.

On March 26, 2010, the Company entered into an Agreement and Plan of Merger by and among, Chief Respect Ltd., Datong Investment Inc., a wholly owned subsidiary of Chief Respect Ltd., and Mr. Yanlin Han, the Company's Chairman, Chief Executive Officer and largest shareholder. Chief Respect Ltd. is a Hong Kong corporation owned by Mr. Han. Under the terms of the Agreement and Plan of Merger, Mr. Han will acquire shares of Dragon common stock not owned by him for $0.82 per share in cash. The transaction is expected to close in the second quarter of 2010 and is subject to certain closing conditions, including approval by Dragon Pharma s shareholders, meeting certain requirements of the Toronto Stock Exchange, and other closing conditions set forth in the merger agreement. Under Florida law, the adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares entitled to vote. Under the rules of the Toronto Stock Exchange, the merger agreement must be approved by the holders of a majority of the outstanding shares entitled to vote, excluding the votes of those shares owned by Yanlin Han.

Certain Officers And Directors Have Significant Control.

Messrs. Han and Weng and Ms. Liu, who are officers and/or Directors of the Company, own, in the aggregate, 58.05% of the Company s 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 requiring a majority vote without seeking other shareholders approval. They will also have the ability to control other matters requiring shareholders approval including the election of directors that could result in the entrenchment of management.

Company Has A Negative Working Capital And It Must Restructure The Short-Term Loans.

As of December 31, 2009, the Company had current liabilities of $109.37 million and current assets of $55.92 million, including cash and restricted cash of $7.97 million and accounts receivable of $24.05 million. The excess of current liabilities over current assets was mainly due to the fact that the Company financed its operations and increased sales and production level for both Cephalosporin and Penicillin divisions through operating revenues, accounts payable and short-term loans. As a result, the Company must, during the upcoming twelve months, negotiate with its banks to restructure or renew its loans. Assuming that the Company is successful in renegotiating its loans and that vendors continue to work with the Company regarding accounts payable, the Company believes that it will be able to fund its operations from product sales for the near future. However, there is no assurance that the Company will be able to renegotiate and extend its loans. If the Company s banks do not extend its loan or if they are extended on unfavorable terms, the Company may be adversely affected.

We Will Have To Raise Additional Capital To Move And Rebuild Our Facilities.

Our current 7-ACA and Clavulanic Acid product facilities have reached its maximum capacity. As a result, we have acquired a piece of land to build two new production facilities. It is the management s current estimate that a capital expenditure of $100 million will be required for these two new facilities of which we anticipate that the Government of the City of Datong would pay approximately $36 million for the relocation. In order to build the facilities, we will have to raise additional capital which may have a financial dilutive and an ownership dilutive effect.

Company Relies Heavily On A Limited Number Of Clients.

Sales to the Company s five largest customers accounted for approximately 46% and 37% of the Company s sales for the year ended December 31, 2009 and 2008, respectively; while sales to the Company s largest customer accounted for approximately 13% and 12%, respectively. Although the Company does not anticipate that there will be a material change in these customer relationships, a change in demand for these products due to world competition, market forces or other factors outside of the control of clients, could adversely affect its sales and net income.

Shanxi Weiqida Is Required To Contribute A Portion Of Its Net Income To Reserve Funds 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 reserve fund until the reserve is equal to 50% of Shanxi Weiqida s registered capital, a further percentage of its after tax net income, as determined by Shanxi Weiqida s Board of Directors, into a staff welfare fund, and into an enterprise expansion fund if determined by the Board of Directors. The reserve fund and enterprise expansion fund are recorded as part of stockholders equity but are not available for distribution to shareholders other than in the case of liquidation, while the staff welfare fund is recorded as a liability, and is not available for distribution to shareholders. As a result of this requirement, the amount of net income available for distribution to shareholders will be limited.

The Company Intends To Raise Additional Capital Through The Issuance Of Equity Securities That Will Dilute The Ownership Of Other Shareholders.

The Company intends to raise additional capital through the issuance of its equity securities to finance its growth and reduce short-term debt and other liabilities. No assurance can be given that the Company will be successful in its efforts. Furthermore, the issuance of equity securities will reduce other shareholders ownership in the Company.

The Company May Be Subject To Product Liability Claims In The Future That Could Harm Its 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 the Company s 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 product liability insurance coverage. Should any product liability claim be brought against the Company, there is no assurance that it would not have an adverse impact on its business, profitability or business reputation.

The Company Is Dependent Upon The Services Of Its CEO And Chairman, Mr. Yanlin Han.

Mr. Yanlin Han is the Company s largest shareholder and serves as its CEO and Chairman of the Board. As a result, the Company s operation is dependent on Mr. Han who has been the driving force behind the Company. If something happens to Mr. Han, this could divert management s time and attention and adversely affect the management s ability to conduct the business operations effectively.

Company Relies Heavily On The China Market And Changes In The Market Could Harm Its Business.

During 2009 and 2008, 81% and 83% of Company s sales, respectively, were derived from China. It is anticipated that Company s products in China will continue to represent a significant portion of sales in the near future. As a result of its reliance on the China market, the operating results and financial performance of Company could be affected by any adverse changes in economic, political and social conditions in China. In addition, the Company will be subject to varying degrees of regulation and licensing by governmental agencies in China. At this time, the management of the Company is unaware of any China legislative proposals that could adversely affect the Company s business. There can be no assurance that future regulatory, judicial and legislative changes will not have a material adverse effect on Company, 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 the Company s operations.

Certain Products Are Subject To Price Controls And If The Related Manufacturing Costs Increase, The Company s 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. For details, please refer to the Regulation section. All powder for injection products from the Company s Cephalosporin division are subject to retail price control imposed by the government administration authorities, which accounted for approximately 26% of 2009 and 2008. If manufacturing costs increase for these products that are subject to price ceilings, and the retail price for those products is not adjusted upwards, the Company s profitability will be adversely affected.

We Are Required To Maintain Compliance With GMP Standards.

All pharmaceutical manufacturers in China, including Shanxi Weiqida, a subsidiary of Company, 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 the certificate.

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Further, Shanxi Weiqida has been accredited with all GMP certificates it requires for its production facilities. 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 recertification 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 Company s profitability.

Currency Conversion And Exchange Control Could Adversely Affect The Company s Operations And Profitability.

The sales and expenses of Shanxi Weiqida are substantially settled in Renminbi, or RMB, however, the Company s financial statements are reported in U.S. dollars. Accordingly, the Company s net income, the value of its assets and its 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.

On July 22, 2005, the Chinese government decided to no longer peg the value of the Renminbi to the US dollar but rather to a basket of currencies of its largest trading partners. The result was an appreciation of the Renminbi against the value of the US dollar. The effect of the revaluation was an increase in the assets, liabilities, revenues and expenses of the Company and a foreign currency gain included in comprehensive income.

The majority of the Company s assets, liabilities, revenues and expenses are denominated in Renminbi, which was tied to the US Dollar until July 22, 2005 and is now tied to a basket of currencies of China s largest trading partners, is not a freely convertible currency. The appreciation of the Renminbi against the US dollar would result in an increase in the assets, liabilities, revenues and expenses of the Company and a foreign currency gain included in comprehensive income. Conversely, the devaluation of the Renminbi against the US Dollar would result in a decrease in the assets, liabilities, revenues and expenses of the Company and a foreign currency loss included in comprehensive income.

Company Does Not Have Patent Protection And Is Subject To Substantial Competition.

Company 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 Company s products. Further, many of these competitors are larger and have greater resources and market presence than Company. Larger competitors may, as a result of economies of scale, be able to afford to sell competing products at lower prices than Company. This will have an adverse effect on Company s profitability. As a result of the lack of patent protection, competitors with potential substitutes could launch similar products in the market with their prices analogous to or lower than those manufactured and sold by Company. 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 Company at a lower cost.

Chinese Economic Planning Could Negatively Impact The Pharmaceutical Market In Which The Company s 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 the Company s products are sold. At the same time, there can be no assurance that such measures will be consistent and effective or that the Company will benefit from or will be able to capitalize on all such reforms.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. DESCRIPTION OF PROPERTY

The Company s corporate administrative office is located at Suite 310, 650 West Georgia Street, Vancouver, British Columbia, Canada covering 2,222 square feet for approximately Cdn $81,000 ($71,000) per annum until March 31, 2011. The Company also has an office in Beijing, China, which manages the Company s marketing and sales for Chinese and international market outside of China.

The Company s production facilities are all located in Datong city, China. The Company s own production campus, with a total area of approximately 947,200 square feet, houses the clavulanic acid and 7-ACA production facilities complete with a entire production infrastructure including power supply, boiler, steam and chilled water facilities and water treatment plant. The land use right for this facility expires in August 2053.

In the past, the Company has used contract manufacturers to produce the cephalosporin powder for injection. As the Company s sales volume and market share for its formulation products continue to increase in the Chinese market, the Company purchased a 84,000 square feet manufacturing facility with a production line for cephalosporin powder for injection. This facility also includes several workshops for other crude sterilized bulk drugs for cephalosporin antibiotics. This allows the Company to ensure enough production volume to meet a growing demand of the Company s products, better control of manufacturing cost, as well as facilitate product quality.

The Company s current 7-ACA and Clavulanic Acid product facilities have reached its maximum capacity. As a result, the Company has acquired a land use right for a piece of land located in the suburban area of Datong city to build the new 7-ACA and Clavulanic Acid production facilities with expanded capacities. It is the management s current estimate that a capital expenditure of $100 million will be required for these two new facilities. Regarding the existing 7-ACA and Clavulanic Acid production facilities, the Datong City Government has indicated that it would fully compensate the Company as an incentive to move to the new location when the new facilities are expected to be completed. The estimated relocation compensation is $36 million, including fixed assets (cost of land used right, building and fixtures) that cannot be relocated to the new location. The Company does not expect any loss from the

relocation. Final agreement is yet to be signed with the government. As at December 31, 2009, the Company received $16,673,000 (RMB114 million) advance of the compensation from the Government.

ITEM 3. LEGAL PROCEEDINGS

The Company is not currently involved in any litigation or legal proceedings.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock began quotation on the OTC Bulletin Board on October 9, 1998 under the symbol DRUG . In addition, the Company s 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 the Company s primary market. The Company 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 the Company s common stock on a quarterly basis for 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.

	Common Stock	
Quarter Ended	**High**	**Low**
December 31, 2009	$0.75	$0.55
September 30, 2009	$0.75	$0.45
June 30, 2009	$0.75	$0.38
March 31, 2009	$0.79	$0.30
December 31, 2008	$0.90	$0.30
September 30, 2008	$1.16	$0.61
June 30, 2008	$0.91	$0.61
March 31, 2008	$0.89	$0.65

Holders

As of March 15, 2010, there were 60 registered holders of the Company s common stock**.** Many of the shares of common stock are held in street name and there may be additional beneficial holders of the Company s common stock.

Dividend Policy

The Company has paid no dividends on its common stock since its inception and may not do so in the future. For the foreseeable future, the management expects earnings, if any, will be retained to finance the growth of the Company.

Recent Sales of Unregistered Securities

We did not sell any unregistered equity securities during the year ended December 31, 2009.

Repurchase of Equity Securities

The Company did not repurchase any shares of its common stock during the year ended December 31, 2009.

ITEM 6. SELECTED FINANCIAL DATA

Because the Company is a smaller reporting company, it does not need to provide the information required by this Item 6.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Except for statements of historical facts, this section contains forward-looking statements involving risks and uncertainties. You can identify these statements by forward-looking words including believes, considers, intends, expects, may, will, should, forecast, or anticipates, or the negative equivalents of those words or comparable terminology, and by discussions of strategies that involve risks and uncertainties. Forward-looking statements are not guarantees of the Company s future performance or results, and the Company s actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under Risk Factors. This section should be read in conjunction with the Company s consolidated financial statements.

The following discusses the Company s financial condition and results of operations for the years ended December 31, 2009 and 2008 based upon the Company s audited consolidated financial statements which have been prepared in accordance with the United States generally accepted accounting principles. Since the Company sold its Biotech division during 2007, the results for the Biotech division have been shown separately as discontinued operations on the Company s Consolidated Statements of Operations for the years ended December 31, 2009 and 2008.

Results of Operations for the Fiscal Years Ended December 31, 2009 and 2008

Sales for the year ended December 31, 2009 increased 9% to $165.77 million from $151.95 million for the same period in 2008. $133.64 million, or approximately 81%, of the sales for the year ended December 31, 2009 were generated from the sales of products in the Chinese market, and the remaining $32.13 million, or approximately 19%, were generated from the sales of products in the markets outside of China. By comparison, 83% of the sales for the year ended December 31, 2008 were generated from the sale of products in the Chinese market while the remaining 17% of the sales were generated in the international markets, outside of China. For the year ended December 31, 2009, $52.78 million, or 32%, of sales were from the Penicillin division and $112.99 million, or 68%, of the sales were from the Cephalosporin division. For the same period in 2008, 32% of sales were from the Penicillin division and 68% of sales were from the Cephalosporin division. The increase in sales for the full year of 2009 as compared to 2008 was primarily due to the increase in sales of clavulanic acid (29% year-over-year growth), cephalosporin crude bulk drug (99% year-over-year growth) and cephalosporin formulation (12% year-over-year growth).

Cost of sales for the year ended December 31, 2009 was $135.40 million compared to $127.40 million for the same period in 2008. The increase in the co