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 x   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))**

x Definitive proxy statement

¨ Definitive additional materials

¨ Soliciting material pursuant to Section 240.14a-11(c) or Section 240.14a-12

DRAGON PHARMACEUTICAL INC.

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

¨ 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.

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

(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.

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

(5) Total fee paid: $5,061.10

¨ 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

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

(3) Filing Party: Registrant

(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.

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

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

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.

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

December 8, 2004

Secretary

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DRAGON PHARMACEUTICAL INC.

1055 West Hastings Street, Suite 1900

Vancouver, British Columbia

Canada V6E 2E9

Telephone (604) 669-8817

PROXY STATEMENT

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 t variations thereon or comparable terminology are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in those forward-looking statements, and discussed in further detail in the section of this proxy statement 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 Incorporate 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.

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 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, 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(1)	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(1)	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(1)	60%

				PRO FORMA CONSOLIDATED		PRO FORMA CONSOLIDATED
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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Pro Forma Consolidated Statement of Operations Data

For the Year Ended December 31, 2003

	ORIENTAL WAVE	DRAGON	PRO FORMA ADJUSTMENT	100% PRO FORMA CONSOLIDATED	MINORITY INTEREST ADJUSTMENT(1)	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

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.

	At or for the Nine Months Ended September 30 , 2004 (unaudited)	At or for the Year Ended December 31, 2003
Book value per share[(a)]:		
Dragon	$ 0.43	$ 0.47
Oriental Wave	$ 450.07	$ 299.99
Dragon pro forma[(c)]	$ 0.52	$ 0.42
Tangible book value per share[(b)]:		
Dragon	$ 0.30	$ 0.33
Oriental Wave	$ 441.11	$ 290.12
Dragon pro forma[(c)]	$ 0.47	$ 0.37
Basic and diluted earnings (loss) per share:		
Dragon	$ (0.04)	$ (0.10)
Oriental Wave	$ 145.52	$ 151.68
Dragon pro forma[(c)(d)]	$ 0.10	$ 0.09
Number of shares outstanding at the end of each period:		
Dragon	20,602,000	20,462,000
Oriental Wave	50,000	50,000
Pro Forma[(c)]	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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Quarter Ended	Common Stock High	Common Stock Low
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 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 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 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.

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.

(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 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 Housser & Tupper LLP of British Columbia to help negotiate the letter of intent. Based on mutual negotiations and each parties internally prepared valuations based on public, in the case of Dragon, and private, in the case of Oriental Wave, information the consideration was agreed to be 68.35% ownership of the combined company after the transaction for Oriental Wave shareholders and 31.65% for Dragon shareholders. It was also agreed that such percentage ownership would not be subject to change as a result of any fluctuation in the stock price of Dragon but would be subject to change based on the results of mutual due diligence.

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

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

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

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

Late-May 2004: At a Board of Directors meeting held on May 18, 2004 in Vancouver, Dragon s management submitted a project presentation with updated business issues and financial analysis, including an

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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.

	Dragon Alone	**Dragon Combined with Oriental Wave**
2003 Sales	$3.6 million	$29.7 million(1)
2003 Net profit	Net loss of $2.0 million	Net profit of $5.6 million(1)
Key products	Two biotech products (EPO & G-CSF (in-licensed))	35 pharmaceutical products Four chemical products Two biotech products
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

	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.

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 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)	Percentage of Issued Shares 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(4)	27,399,000		27,399,000	57.08%	54.80%
Additional Dragon Closing Shares					
	27,399,000(5)		27,399,000	57.08%	54.80%
Totals	48,001,000	1,999,000	50,000,000	100.00%	100.00%

(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:

				Percentage of Issued Shares	
Holder	**Number of Shares Outstanding**	**Number of Shares Reserved for Issue(1)**	**Total Shares Outstanding (fully diluted)**	**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[4]	4,316,956		4,316,956	6.22%	6.05%
	48,808,163(5)		48,808,163	70.32%	68.35%
Totals	69,410,163	1,999,000	71,409,163	100.00%	100.00%

(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.

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