

NEW DRAGON ASIA CORP

FORM 10-Q (Quarterly Report)

Filed 08/10/09 for the Period Ending 06/25/09

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 25, 2009

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-15046

NEW DRAGON ASIA CORP.

(Exact name of Registrant as specified in its charter)

FLORIDA

(State or other jurisdiction of incorporation or organization)

88-0404114

(IRS Employer Identification Number)

10 Huangcheng Road (N), Longkou, Shandong Province, PRC
(Address of Principal Executive Offices)

(Zip Code)

(86 535) 8951 567

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes No *The registrant has not yet been phased into the interactive data requirements.

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

The number of shares of Class A Common Stock outstanding as of July 31, 2009 was 77,757,447.

NEW DRAGON ASIA CORP.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 25, 2009

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PART I: FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

**NEW DRAGON ASIA CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)**

	June 25, 2009	December 25, 2008
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,352	\$ 4,383
Accounts receivable, net	10,972	8,888
Deposits and prepayments, net	7,357	13,056
Inventories, net	23,386	27,124
Assets held for disposal	—	5,778
Total current assets	<u>49,067</u>	<u>59,229</u>
Deferred tax asset	349	—
Property, machinery and equipment, net	25,454	20,139
Land use rights, net	4,438	4,529
Due from related companies	951	981
Total assets	<u>\$ 80,259</u>	<u>\$ 84,878</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,098	\$ 4,980
Other payables and accruals	1,918	3,845
Taxes payable	581	294
Embedded derivatives, at fair value	93	287
Total current liabilities	<u>7,690</u>	<u>9,406</u>
Due to shareholder	3,389	2,780
Due to joint venture partners	837	767
Series A and B Redeemable Convertible Preferred Stock, \$0.0001 par value:		
Authorized shares - 5,000,000 Issued and outstanding -4,997 shares and 6,501 shares at June 25, 2009 and December 25, 2008	3,936	4,645
Total liabilities	<u>15,852</u>	<u>17,598</u>
Commitments		
Stockholders' equity:		
Class A Common Stock, \$0.0001 par value:		
Authorized shares - 102,000,000 Issued and outstanding - 71,141,326 at June 25, 2009 and 60,922,981 at December 25, 2008	7	6
Class B Common Stock, \$0.0001 par value:		
Authorized shares - 2,000,000 Issued and outstanding - none	—	—
Additional paid-in capital	34,171	32,521
Non-controlling interest	124	122
Retained earnings	16,761	21,321
Accumulated other comprehensive income	13,344	13,310
Total stockholders' equity	<u>64,407</u>	<u>67,280</u>
Total liabilities and stockholders' equity	<u>\$ 80,259</u>	<u>\$ 84,878</u>

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

NEW DRAGON ASIA CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data; unaudited)

	Three months ended June 25,		Six months ended June 25,	
	2009	2008	2009	2008
Net revenue	\$ 5,630	\$ 14,515	\$ 9,593	\$ 26,214
Cost of goods sold	(6,513)	(11,970)	(12,031)	(21,527)
Gross profit	(883)	2,545	(2,438)	4,687
Selling and distribution expenses	(148)	(369)	(367)	(590)
General and administrative expenses	(442)	(741)	(1,608)	(1,246)
Income (Loss) from operations	(1,473)	1,435	(4,413)	2,851
Other income (expense):				
Interest income	—	—	2	2
Other income (expense)	(66)	27	(92)	215
Gain on fair value adjustments to embedded derivatives	53	738	173	1,428
VAT refund	15	28	15	28
Income (loss) before income taxes	(1,471)	2,228	(4,315)	4,524
Benefit (provision) for income taxes	—	(472)	349	(786)
Net income (loss)	(1,471)	1,756	(3,966)	3,738
Net income (loss) attributable to Non-controlling interest	1	—	2	—
Net income (loss) attributable to Controlling interest	\$ (1,470)	\$ 1,756	\$ (3,964)	\$ 3,738
Accretion of Redeemable Preferred Stock	(187)	(301)	(406)	(660)
Preferred Stock Dividends	(87)	(140)	(188)	(293)
Income available to (loss attributable to) common stockholders	\$ (1,744)	\$ 1,315	\$ (4,558)	\$ 2,785
Earnings per common share				
Basic	\$ (0.03)	\$ 0.02	\$ (0.07)	\$ 0.05
Diluted	\$ (0.03)	\$ 0.02	\$ (0.07)	\$ 0.05
Weighted average number of common shares outstanding				
Basic	69,742	57,165	66,815	56,615
Diluted	69,742	57,165	66,815	56,615

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

NEW DRAGON ASIA CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(Amounts in thousands)

	Class A Common Stock		Additional Paid-in Capital	Non Controlling Interest	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount						
Balance at December 25, 2007	55,195	\$ 5	\$ 29,982	\$ 294	\$ 24,568	\$ 7,767	\$ 62,616	\$ 18,972
Net (loss) attributable to controlling interest	-	-	-	(193)	(1,517)	-	(1,710)	(1,517)
Accretion of Redeemable Preferred Stock	-	-	-	-	(1,196)	-	(1,196)	-
Preferred Stock Dividends	-	-	-	-	(534)	-	(534)	-
Foreign currency translation adjustment	-	-	-	21	-	5,543	5,564	5,543
Conversion of preferred stocks and related dividend payments made in Class A Common Stock	5,728	1	2,539	-	-	-	2,540	-
Balance at December 25, 2008	60,923	6	32,521	122	21,321	13,310	67,280	\$ 4,026
Net income (loss)	-	-	-	2	(3,966)	-	(3,964)	(3,964)
Accretion of Redeemable Preferred Stock	-	-	-	-	(406)	-	(406)	-
Preferred Stock Dividends	-	-	-	-	(188)	-	(188)	-
Foreign currency translation adjustment	-	-	-	-	-	34	34	34
Conversion of preferred stock and related dividend payments made in Class A Common Stock	8,218	1	1,350	-	-	-	1,351	-
Share-based compensation to CFO	2,000	—	300	-	-	-	300	-
Balance at June 25, 2009 (unaudited)	71,141	\$ 7	\$ 34,171	\$ 124	\$ 16,761	\$ 13,344	\$ 64,407	\$ (3,930)

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

NEW DRAGON ASIA CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, unaudited)

	Six months ended June 25,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (3,966)	\$ 3,738
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Allowance for doubtful accounts	317	29
Provision for inventory reserve	2,244	4
Depreciation and amortization of property, machinery, equipment and land use rights	864	1,020
Gain on fair value adjustments to embedded derivatives	(173)	(1,428)
Stock based compensation expense	75	—
Changes in operating assets and liabilities:		
Accounts receivable	(2,396)	(411)
Deposits and prepayments	5,628	107
Inventories	1,506	(3,159)
Due from related companies	30	(63)
Accounts payable	115	1,667
Other payables and accruals	(1,601)	98
Taxes payable	287	778
Due to related companies	—	(36)
Deferred tax asset	(349)	—
Net cash provided by operating activities	2,581	2,344
Cash flows from investing activities:		
Purchases of property, machinery and equipment	(6,071)	(196)
Proceeds from sale of property, machinery and equipment	5,778	3
Net cash used in investing activities	(293)	(193)
Cash flows from financing activities:		
Payment for preferred stock redemption	—	994
Proceed from shareholder loan	607	363
Proceeds from (repayment to) joint venture partners	70	(84)
Net cash provided by financing activities	677	1,273
Impact of foreign currency translation on cash	4	2,433
Net increase in cash and cash equivalents	2,969	5,857
Cash and cash equivalents at beginning of period	4,383	3,646
Cash and cash equivalents at end of period	\$ 7,352	\$ 9,503
Non-Cash Investing and Financing Activities		
Conversion of preferred stock into common stock	\$ 1,504	\$ 1,504
Dividend payments on preferred stock in the form of common stock	\$ 215	\$ 326

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

NEW DRAGON ASIA CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

New Dragon Asia Corp., a corporation incorporated in the State of Florida (collectively with its subsidiaries, the “Company,” “we,” “us,” or “our”), is principally engaged in the milling, sale and distribution of flour and related products, including instant noodles and soybean-derived products, to retail and wholesale customers throughout China through its foreign subsidiaries in China. The Company is headquartered in Shandong Province in the People’s Republic of China (“PRC” or “China”) and has its eight manufacturing plants in Yantai, Beijing, Chengdu, and Penglai.

NOTE 2. BASIS OF PRESENTATION

The consolidated financial statements include the financial statements of New Dragon Asia Corp. and all of its wholly and majority owned subsidiaries (Note 1). Intercompany balances and transactions have been eliminated in consolidation.

FIN 46, “Consolidation of Variable Interest Entities” requires an investor with a majority of the variable interests (primary beneficiary) in a variable interest entity (“VIE”) to consolidate the entity. A VIE is an entity in which the voting equity investors do not have a controlling financial interest or the equity investment at risk is insufficient to finance the entity’s activities without receiving additional subordinated financial support from other parties. VIEs are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among the parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the entity’s expected losses or receives a majority of its expected residual returns. The Company has completed a review of its investments in both non-marketable and marketable equity interests as well as other arrangements to determine whether it is the primary beneficiary of any VIEs. The review did not identify any VIEs.

The consolidated financial statements have been prepared in accordance with U.S. GAAP. These Consolidated Financial Statements for interim periods are unaudited. In the opinion of management, the consolidated financial statements include all adjustments, consisting only of normal, recurring adjustments, necessary for their fair presentation. The results reported in these Consolidated Financial Statements are not necessarily indicative of the results that may be reported for the entire year. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to allowances for doubtful accounts, sales returns and allowance, and inventory reserves. Although management believes these estimates and assumptions are adequate and reasonable under the circumstances, actual results could differ from those estimates.

Effective December 26, 2008 the Company adopted FAS 160, “Non-controlling Interests in Consolidated Financial Statements,” an Amendment of ARB No. 51, “Consolidated Financial Statements.” The adoption of FAS 160 was applied retrospectively, resulting in the reclassification of minority interest to equity. The change was not significant.

Contractual Joint Ventures

A contractual joint venture is an entity established between the Company and another joint venture partner, with the rights and obligations of each party governed by a contract. Currently, the Company has established three contractual joint ventures with three Chinese partners in China, with percentage of ownership ranging from 79.64% to 90%. Pursuant to each Chinese joint venture agreement, each Chinese joint venture partner is entitled to receive a pre-determined annual fee and is not responsible for any profit or loss, regardless of the ownership in the contractual joint venture. In view of such contracted profit sharing arrangement, the three contractual joint ventures are regarded as 100% owned by the Company. Hence, the Company’s consolidated financial statements include the financial statements of the contractual joint ventures.

Accounting for Derivative Instruments

Statement of Financial Accounting Standard (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, requires all derivatives to be recorded on the Company’s balance sheet at fair value. These derivatives, including embedded derivatives in the Company’s Series A and B Redeemable Convertible Preferred Stock, are separately valued and accounted for on the Company’s balance sheet.

The pricing models the Company uses for determining fair values of its derivatives are a combination of the Black-Scholes and Binomial Pricing Models. Valuations derived from this model are subject to ongoing internal and external review. The model uses market-sourced inputs such as interest rates and option volatilities. Selection of these inputs involves management’s judgment and may impact net earnings. The Company has obtained a valuation report from a valuation firm to support its estimates.

In September 2000, the Emerging Issues Task Force ("EITF") issued EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock," ("EITF 00-19") which requires freestanding contracts that are settled in a company's own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value on a company's balance sheet, with any changes in fair value recorded in the company's results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required.

The Company has determined that the conversion features of its redeemable convertible preferred stock and warrants to purchase common stock are derivatives that the Company is required to account for as if they were free-standing instruments under U.S. GAAP. The Company has also determined that it is required to designate these derivatives as liabilities in its financial statements. As a result, the Company reports the value of these embedded derivatives as current liabilities on its balance sheet and reports changes in the value of these derivatives as non-operating gains or losses on its statement of operations. The value of the derivatives is required to be recalculated (and resulting non-operating gains or losses reflected in the statement of operations and resulting adjustments to the associated liability amounts reflected on the balance sheet) on a quarterly basis, and is based on the market value of the Company's common stock. Due to the nature of the required calculations and the large number of shares of the Company's common stock involved in such calculations, changes in the Company's common stock price may result in significant changes in the value of the derivatives and resulting gains and losses on the Company's statement of operations.

The consolidated financial statements also reflect additional non-operating gains and losses related to the classification of and accounting for: (1) the conversion features of the Series A and B Preferred Stock and associated warrants, (2) the amortization associated with the discount recorded with respect to the Series A and B Preferred Stock as a preferred stock dividend, and (3) the conversion features associated with the preferred stock issued by the Company and associated warrants.

Fair Value of Financial Instruments

The Company adopted SFAS 157 on January 1, 2008. This statement establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical asset or liabilities that the Company has the ability to access as of the measurement date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded securities and exchange-based derivatives.

Level 2 - inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, mutual funds, and fair-value hedges.

Level 3 - unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded, non-exchange-based derivatives and commingled investment funds, and are measured using present value pricing models.

In accordance with SFAS 157, the Company determines the level in the fair value hierarchy within which each fair value measurement in its entirety falls, based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the embedded derivative, the Company's only financial liability measured and recorded at fair value on the Company's Consolidated Balance Sheets on a recurring basis and its level within the fair value hierarchy during the period ended June 25, 2009 and 2008:

(In thousands)

	Fair Value			
	Level 1	Level 2	Level 3	Total
Embedded derivative liabilities as of June 25, 2009	\$ —	\$ —	\$ 93	\$ 93
Embedded derivative liabilities as of December 25, 2008	\$ —	\$ —	\$ 287	\$ 287

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Financial Accounting Standard (SFAS) 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," which is effective for fiscal years ending after December 15, 2009. The new standard expands disclosures for assets held by employer pension and other postretirement benefit plans. FSP SFAS 132(R)-1 will not affect the Company's financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company evaluated subsequent events after the balance sheet date of June 25, 2009 through the filing of this report with the SEC on August 10, 2009.

In June 2009, FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140." SFAS 166 is applied to financial asset transfers on or after the effective date, which is January 1, 2010 for the Company's financial statements. SFAS 166 limits the circumstances in which a financial asset may be de-recognized when the transferor has not transferred the entire financial asset or has continuing involvement with the transferred asset. The concept of a qualifying special-purpose entity, which had previously facilitated sale accounting for certain asset transfers, is removed by SFAS 166. The Company expects that adoption of SFAS 166 will not have a material effect on its financial position or results of operations.

In June 2009, FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" which deals with accounting for variable interest entities and is effective for reporting periods beginning after November 15, 2009. The amendments change the process for how an enterprise determines which party consolidates a variable interest entity (VIE) to a primarily qualitative analysis. SFAS 167 defines the party that consolidates the VIE (the primary beneficiary) as the party with (1) the power to direct activities of the VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Upon adoption of SFAS 167, reporting enterprises must reconsider their conclusions on whether an entity should be consolidated and should a change result, the effect on net assets will be recorded as a cumulative effect adjustment to retained earnings. The Company expects that adoption of SFAS 167 will not have a material effect on its financial position or results of operations.

In January 2009, the FASB released Proposed Staff Position SFAS 107-b and Accounting Principles Board (APB) Opinion No. 28-a, "Interim Disclosures about Fair Value of Financial Instruments" (SFAS 107-b and APB 28-a). This proposal amends FASB Statement No. 107, "Disclosures about Fair Values of Financial Instruments," to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The proposal also amends APB Opinion No. 28, "Interim Financial Reporting," to require those disclosures in all interim financial statements. This proposal is effective for interim periods ending after June 15, 2009. The Company adopted SFAS 107-b and APB 28-a in the current period; no additional disclosures were required.

In March 2009, the FASB released Proposed Staff Position SFAS 157-e, "Determining Whether a Market Is Not Active and a Transaction Is Not Distressed" (SFAS 157-e). This proposal provides additional guidance in determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS 157, "Fair Value Measurements." SFAS 157-e is effective for interim periods ending after June 15, 2009. Adoption of this standard did not have a material impact on the Company's financial position, cash flows, or disclosures.

In March 2009, the FASB issued Proposed Staff Position SFAS 115-a, SFAS 124-a, and EITF 99-20-b, "Recognition and Presentation of Other-Than-Temporary Impairments." This proposal provides guidance in determining whether impairments in debt securities are other than temporary, and modifies the presentation and disclosures surrounding such instruments. This Proposed Staff Position is effective for interim periods ending after June 15, 2009. Adoption of this standard did not have a material impact on the Company's financial position, cash flows, or disclosures.

NOTE 4. CONDENSED BALANCE SHEET INFORMATION

Condensed balance sheet information as of June 25, 2009 consisted of the following (in thousands):

	Inside China	Outside China	Total
Assets			
- Cash and cash equivalents	\$ 7,112	\$ 240	\$ 7,352
- Others	72,662	245	72,907
Total assets	79,774	485	80,259
Liabilities	8,375	7,477	15,852
Equity	52,039	12,368	64,407

Assets located outside of China consist primarily of cash and cash equivalents. Liabilities located outside of China consist primarily of embedded derivatives, net of the related beneficial conversion feature and fair value of the warrants.

Condensed statement of operation information for the six months ended June 25, 2009 consisted of the following (in thousands):

	<u>Inside China</u>	<u>Outside China</u>	<u>Total</u>
Net revenue	\$ 9,593	\$ —	\$ 9,593
Cost of goods sold	(12,031)	—	(12,031)
General and administrative expenses	(1,043)	(565)	(1,608)
Income (loss) from operations	(3,848)	(565)	(4,413)
Income tax benefit	349	—	349
Other income (expense)	(75)	173	98
Net loss attributable to controlling interest	(2,572)	(392)	(3,964)

The Company does not believe that providing additional information regarding cash flows is meaningful to the reader, in light of the nature of the assets and operations located inside China and outside China.

NOTE 5. EARNINGS PER SHARE

The Company computes earnings per share (“EPS”) in accordance with Statement of Financial Accounting Standards No. 128, “Earnings per Share” (“SFAS No. 128”), and SEC Staff Accounting Bulletin No. 98 (“SAB 98”). SFAS No. 128 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as the income or loss available to common shareholders divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. Approximately 29,258 dilutive shares on an “as converted” basis for the Redeemable Convertible Preferred stock for the three and six months ended July 25, 2009 were excluded from the calculation of diluted earnings per share since their effect would have been anti-dilutive.

The calculation of diluted weighted average common shares outstanding for the three months and six months ended June 25, 2009 and 2008 is based on the average of the closing price of the Company’s common stock during such periods applied to warrants and options using the treasury stock method to determine if they are dilutive. The Redeemable Convertible Preferred stock is included on an “as converted” basis when these shares are dilutive.

The following table is a reconciliation of the weighted average shares used in the computation of basic and diluted earnings per share for the periods presented (amounts in thousands, except per share data):

	Three Months Ended June 25,					
	2009			2008		
	Income	Weighted Average Shares	Per-Share	Income (Loss)	Weighted Average Shares	Per-Share
Earnings per share – basic						
Income (loss) attributable to common stockholders	\$ (1,744)	69,742	\$ (0.03)	\$ 1,315	57,165	\$ 0.02
Effect of dilutive securities						
Redeemable convertible preferred stock	—	—		—	—	
Options and warrants	—	—		—	—	
Earnings per share – diluted	<u>\$ (1,744)</u>	<u>69,742</u>	<u>\$ (0.03)</u>	<u>\$ 1,315</u>	<u>57,165</u>	<u>\$ 0.02</u>
	Six Months Ended June 25,					
	2009			2008		
	Income	Weighted Average Shares	Per-Share	Income (Loss)	Weighted Average Shares	Per-Share
Earnings per share – basic						
Income (loss) attributable to common stockholders	\$ (4,558)	66,815	\$ (0.07)	\$ 2,785	56,615	\$ 0.05
Effect of dilutive securities						
Redeemable convertible preferred stock	—	—		—	—	
Options and warrants	—	—		—	—	
Earnings per share – diluted	<u>\$ (4,558)</u>	<u>66,815</u>	<u>\$ (0.07)</u>	<u>\$ 2,785</u>	<u>56,615</u>	<u>\$ 0.05</u>

NOTE 6. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following (in thousands):

	June 25, 2009	December 25, 2008
Accounts receivable	\$ 12,469	\$ 10,072
Less: Allowance for doubtful accounts	(1,497)	(1,184)
	<u>\$ 10,972</u>	<u>\$ 8,888</u>

The activity in the Company's allowance for doubtful accounts is summarized as follows (in thousands):

	June 25, 2009	December 25, 2008
Balance at the beginning of the period	\$ 1,184	\$ 944
Add: provision during the period	317	308
Less: write-offs during the period	(4)	(68)
Balance at the end of the period	<u>\$ 1,497</u>	<u>\$ 1,184</u>

NOTE 7. DEPOSITS AND PREPAYMENTS

Deposits and prepayments consisted of the following (in thousands):

	June 25, 2009	December 25, 2008
Deposits for raw materials	\$ 6,215	\$ 12,414
Prepayments and advances	1,142	642
	<u>\$ 7,357</u>	<u>\$ 13,056</u>

The Company issued 2,000,000 Class A Common Shares to the CFO as annual compensation for the service term from April 1, 2009 to March 31, 2010. The market value of such common shares was \$300,000. The Company recognized \$75,000 as compensation expense for the quarter ended June 25, 2009. The remaining \$225,000 has been recognized as a prepaid expense and will be charged to income on the straight-line basis over the remaining service term. See also Note 16.

NOTE 8. INVENTORIES

Inventories consisted of the following (in thousands):

	June 25, 2009	December 25, 2008
Raw materials (including packing materials)	\$ 23,629	\$ 26,047
Finished goods	2,068	1,642
	25,697	27,689
Less: Inventory reserve	(2,311)	(565)
	<u>\$ 23,386</u>	<u>\$ 27,124</u>

The activity in the Company's provision for inventory reserve is summarized as follows (in thousands):

	June 25, 2009	December 25, 2008
Balance at the beginning of the period	\$ 565	\$ 96
Add: provision during the period	2,244	471
Less: write-offs during the period	(498)	(2)
Balance at the end of the period	<u>\$ 2,311</u>	<u>\$ 565</u>

NOTE 9. DUE FROM RELATED COMPANIES

Due from related companies consisted of the following (in thousands):

	<u>June 25, 2009</u>	<u>December 25, 2008</u>
Due from related companies for sales	\$ 951	\$ 981

NOTE 10. PROPERTY, MACHINERY AND EQUIPMENT

Property, machinery and equipment consisted of following (in thousands):

	<u>Useful Life</u> (In years)	<u>June 25, 2009</u>	<u>December 25, 2008</u>
Buildings	40	\$ 7,580	\$ 9,379
Machinery and equipment	5 - 12	18,701	16,298
Construction in process		7,698	2,216
		33,979	27,893
Less: Accumulated depreciation and amortization		(8,525)	(7,754)
		<u>\$ 25,454</u>	<u>\$ 20,139</u>

NOTE 11. LAND USE RIGHTS

Land use rights consisted of the following (in thousands):

	<u>June 25, 2009</u>	<u>December 25, 2008</u>
Land use rights	\$ 5,252	\$ 5,250
Less: Accumulated amortization	(814)	(721)
	<u>\$ 4,438</u>	<u>\$ 4,529</u>

NOTE 12. OTHER PAYABLES AND ACCRUALS

Other payables and accruals consisted of the following (in thousands):

	<u>June 25, 2009</u>	<u>December 25, 2008</u>
Deposits from customers	\$ 372	\$ 591
Accruals for payroll, bonus and benefits	446	1,173
Utilities and accrued expenses	1,100	2,081
	<u>\$ 1,918</u>	<u>\$ 3,845</u>

NOTE 13. REDEEMABLE CONVERTIBLE PREFERRED STOCK

On July 11, 2005, the Company issued 6,000 shares of Series A 7% Redeemable Convertible Preferred Stock ("Series A Preferred Stock"); initially convertible into an aggregate of 6,315,789 shares of Class A Common Stock at a conversion price of \$0.95 per share, raising \$6 million in gross proceeds. Six-year warrants to purchase an aggregate of 3,157,895 shares of Class A Common Stock at an exercise price of \$1.04 per share were also issued to the investors. As part of the compensation to the placement agent, five-year warrants to purchase an aggregate of 378,947 shares of Class A Common Stock at an exercise price of \$1.04 share were also issued. As of June 25, 2009, all of the warrants issued to the placement agent have been exercised cashless, and 5,335 shares of Series A Preferred Stock have been converted into 6,935,558 shares of Class A Common Stock.

On December 22, 2005, the Company issued 9,500 shares of Series B 7% Redeemable Convertible Preferred Stock ("Series B Preferred Stock"), initially convertible into an aggregate of 5,937,500 shares of Class A Common Stock at a conversion price of \$1.60 per share, raising \$9.5 million in gross proceeds. Six-year warrants to purchase an aggregate of 2,968,750 shares of Class A Common Stock at an exercise price of \$1.76 per share were also issued to the investors. As part of the compensation to the placement agent, five-year warrants to purchase an aggregate of 356,250 shares of Class A Common Stock at an exercise price of \$1.76 per share were also issued. As of June 25, 2009, 5,168 shares of Series B Preferred Stock have been converted into 10,966,164 shares of Class A Common Stock, and no warrants have been exercised.

The key terms of the Series A Preferred Stock and Series B Preferred Stock are as follows:

	Series A Preferred Stock	Series B Preferred Stock
Preferred Dividend	7% per annum, payable quarterly in arrears in cash or, at the Company's option subject to satisfaction of certain conditions, shares of Class A Common Stock valued at 95% of the volume-weighted current market price.	7% per annum, payable quarterly in arrears in cash or, at the Company's option subject to satisfaction of certain conditions, shares of Class A Common Stock valued at 95% of the volume-weighted current market price.
Redemption	July 11, 2010	December 22, 2010
	Beginning on the 24th month following closing and each month thereafter, the Company shall redeem 1/37th of the face value of the Preferred Stock in either cash or Class A Common Stock valued at 90% of the volume-weighted current market price.	Beginning at the end of the 24th month following closing and on each third monthly anniversary of that date (quarterly) thereafter, the Company shall redeem 1/13th of the face value of the Preferred Stock in either cash or Class A Common Stock valued at 90% of the volume-weighted current market price.
Mandatory Conversion	The Company may at any time force the conversion of the Preferred Stock if the volume-weighted current market price of the Class A Common Stock exceeds 300% of the then applicable conversion price.	The Company may at any time force the conversion of the Preferred Stock if the volume-weighted current market price of the Class A Common Stock exceeds 200% of its price at issuance of the Preferred Stock.
Registration	The Company shall file to register the underlying Class A common shares within 30 days of the closing date and make its best efforts to have the Registration declared effective at the earliest date. In the event such Registration is not continuously effective during the period such shares are subject to transfer restrictions under the U.S. federal securities laws, then (subject to certain exceptions) the holders are entitled to receive liquidated damages equal to 2.0% of the purchase price of the Preferred Stock per month.	The Company shall file to register the underlying Class A common shares with 30 days of the closing date and make its best efforts to have the Registration declared effective at the earliest date. In the event such Registration is not continuously effective during the period such shares are subject to transfer restrictions under the U.S. federal securities laws, then (subject to certain exceptions) the holders are entitled to receive liquidated damages equal to 2.0% of the purchase price of the Preferred Stock per month.
Anti-dilution	In the event the Company issues, at any time while Preferred Stock are still outstanding, Common Stock or any type of securities giving rights to Common Stock at a price below the Issue Price, the Company agrees to extend full-ratchet anti-dilution protection to the investors.	In the event the Company issues, at any time while Preferred Stock are still outstanding, Common Stock or any type of securities giving rights to Common Stock at a price below the Issue Price, the Company agrees to extend full-ratchet anti-dilution protection to the investors.

In connection with the issuance of the Redeemable Convertible Series A Preferred Stock and Series B Preferred Stock, the Company paid professional fees, placement agent fees and associated expenses amounting to \$1.83 million since the issuance of the Redeemable Convertible Preferred Stocks. The Company also identified freestanding financial instruments included in the issuances that were required to be recorded as liabilities. These included the embedded conversion feature and warrants included in the Series A & B Preferred Stock issuances. The Company has evaluated the fair value of these liabilities using combination of the Black Scholes and Binomial Pricing Models. The summary of activity in the Series A & B Preferred Stock is as follows:

Redeemable Convertible Preferred Stock	Preferred shares	Balance
2008		(in thousands)
Series A	931	\$ 931
Series B	5,570	5,570
Less unamortized discount		(1,856)
Balance December 25, 2008	6,501	\$ 4,645
2009		
Series A	665	\$ 665
Series B	4,332	4,332
Less unamortized discount		(1,061)
Balance June 25, 2009	4,997	\$ 3,936

Embedded derivatives relate to redeemable convertible preferred stock. We determined that the conversion features of our redeemable convertible preferred stock and warrants to purchase our common stock are derivatives that we are required to account for as freestanding instruments under U.S. GAAP. We have also determined that we are required to designate these derivatives as liabilities in our financial statements. As a result, we report the value of these embedded derivatives as current liabilities on our balance sheet and we report changes in the value of these derivatives as non-operating gains or losses on our statement of operations. The value of the derivatives is required to be recalculated (and resulting non-operating gains or losses reflected in our statement of operations and resulting adjustments to the associated liability amounts reflected on our balance sheet) on a quarterly basis, and is based on the market value of our common stock. Due to the nature of the required calculations and the large number of shares of our common stock involved in such calculations, changes in our common stock price may result in significant changes in the value of the derivatives and resulting gains and losses on our statements of operations. We recognized a gain of \$173,000 on the embedded derivative liability in other income on our statement of operations for the six months ended June 25, 2009 and a gain of \$1,428,000 for the six months ended June 25, 2008.

The pricing model we use for determining fair values of our derivatives is a combination of the Black Scholes and Binomial Pricing Models. Valuations derived from this model are subject to ongoing internal and external review. The model uses market-sourced inputs such as interest rates and option volatilities. Selection of these inputs involves management's judgment and may impact net income. The Company has obtained a valuation report from a third-party valuation firm to support its estimates. The principal assumptions used to value these complex freestanding financial instruments were as follows:

Expected life (in years)	Warrants	Embedded Conversion Feature
	Remaining term at valuation date	Remaining Term to conversion or redemption date at each valuation date
Expected volatility	85% to 90%	105% to 1100%
Risk-free interest rate	1.15% to 1.42%	0.07% to 0.82%
Dividend yield	0	0

The Company considered all of the other minor features of the conversion option associated with the Company's Series A and Series B Preferred Stock, including adjustments for: (i) stock dividends and splits, (ii) the sale of the Company's securities, (iii) the subsequent issuance of rights, options, or warrants to Common shareholders, and (iv) forced conversion and redemption features. We ultimately determined that these features were insignificant and did not have a material impact on the concluded values of the Series A and Series B Preferred Stock.

The changes in the derivative liabilities during the period are as follows (in thousands):

Fair Value at December 25, 2007	\$ 2,493
Gain on change in value of derivatives during the period	(2,047)
Conversion of 3,685 shares of Series A & B Preferred Stock to common stock during 2008	<u>(159)</u>
Fair Value at December 25, 2008	\$ 287
Gain on change in value of derivatives during the period	(173)
Conversion of 1,504 shares of Series A & B Preferred Stock to common stock during 2009	<u>(21)</u>
Fair Value at June 25, 2009	<u><u>\$ 93</u></u>

NOTE 14. COMMON STOCK

On September 4, 2003, the Company issued 3,300,000 shares of Class A Common Stock for an aggregate purchase amount of \$1,650,000 or \$0.50 per share. The shares were issued pursuant to an exemption provided by Section 4(2) of the Securities Act. The purchasers were also issued warrants to purchase 1,650,000 shares of the Company's Class A Common Stock, which have a term of 5 years at an exercise price of \$0.99 per share. As of June 25, 2009, all such warrants had been exercised.

On October 7, 2003, the Company issued 850,000 shares of Class A Common Stock for an aggregate purchase amount of \$425,000 or \$0.50 per share. The shares were issued pursuant to an exemption provided by Section 4(2) of the Securities Act. The purchasers were also issued warrants to purchase 425,000 shares of the Company's Class A Common Stock, which have a term of 5 years and an exercise price of \$0.979 per share. As of June 25, 2009, warrants to purchase 400,000 shares of Class A Common Shares had been exercised and the outstanding warrants to purchase 25,000 shares of Class A Common Shares had expired.

NOTE 15. WARRANTS

The following table summarizes activity regarding the Company's outstanding warrants:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 25, 2007	6,507,895	1.4077
Issued	—	—
Exercised	—	—
Expired	(25,000)	0.979
Outstanding at December 25, 2008	6,482,895	1.4093
Outstanding at June 25, 2009	6,482,895	1.4093

The number of shares of Class A Common Stock issuable under warrants related to the private placements and respective exercise prices are summarized as follows:

	<u>Shares of Class A Common Stock Issuable Under Warrants</u>	<u>Exercise Price</u>
July 2005 private placement		
6-year warrants	3,157,895	\$ 1.04
December 2005 private placement		
6-year warrants	2,968,750	1.76
5-year warrants	356,250	1.76
Warrants exercisable at June 25, 2009	<u>6,482,895</u>	

As of June 25, 2009, these warrants had no intrinsic value.

NOTE 16. STOCK-BASED COMPENSATION

On January 20, 2006, options to purchase 2,000,000 shares of Class A Common Stock were issued to an officer at an exercise price of \$1.60 per share with a term of 6 years. The market price of the Class A Common Stock as of the grant date was \$1.54 per share. The Company recorded compensation expense of \$2,320,000 based on an estimated fair value of the options of \$1.16 per share on January 20, 2006. The per share fair value of the stock options granted has been estimated using the Black-Scholes option-pricing model with the following assumptions:

	<u>January 20, 2006</u>
Life (years)	6
Dividend yield	None
Risk - free interest rate	4.36%
Volatility	89%

None of these options were exercised, and as of June 25, 2009, all of these options had expired as the employment contract with the officer expired

On December 13, 2006, options to purchase an additional 6,000,000 shares of Class A Common Stock were granted to the same officer at an exercise price of \$1.82 per share with a term of 10 years. The options were fully vested upon grant. The market price of the Class A Common Stock as of the grant date was \$1.82 per share. The Company recorded compensation expense of \$5,820,000 based on an estimated fair value of the options of \$0.97 per share on December 13, 2006, the grant date. The per share fair value of the stock options granted has been estimated using the Black-Scholes option-pricing model with the following assumptions:

	<u>December 13, 2006</u>
Life (years)	6
Dividend yield	None
Risk - free interest rate	4.55%
Volatility	50%

As of June 25, 2009, these options were fully vested. According to the employment contract with the officer, all of these options will expire in January 2010, one year after the expiration of the employment contract.

The following table summarizes outstanding options as at June 25, 2009, related weighted average fair value and life information:

Exercise Price Per Share	Options Outstanding			Options Exercisable	
	Number Outstanding at June 25, 2009	Weighted Average Fair Value	Weighted Average Remaining Life (Years)	Number Exercisable at June 25, 2009	Weighted Average Exercise Price
\$ 1.82	6,000,000	\$ 0.97	0.58	6,000,000	\$ 1.82

The Company has no future compensation expense to record from this option outstanding at June 25, 2009 because they were fully vested upon grant and compensation cost was recorded as of that date.

The Company issued 2,000,000 Class A Common Shares to the CFO as annual compensation for the service term from April 1, 2009 to March 31, 2010. The market value of such common shares was \$300,000. The Company recognized \$75,000 as compensation expense for the quarter ended June 25, 2009. The remaining \$225,000 has been recognized as a prepaid expense and will be charged to income on the straight-line basis over the remaining service term.

NOTE 17. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Transactions between New Dragon Asia Corp. and related companies are summarized below (in thousands):

	Three months ended June 25,		Six months ended June 25,	
	2009	2008	2009	2008
Pre-determined annual fee charged by joint venture partners:				
Shandong Longfeng Group Company (a)	\$ 7	\$ 21	\$ 14	\$ 42
Shandong Longfeng Flour Company Limited (b)	12	11	23	21
	\$ 19	\$ 32	37	63

(a) Shandong Longfeng Group Company is a joint venture partner of the Company.

(b) Subsidiary(ies) of Shandong Longfeng Group Company.

Loans from the Company's major shareholder, New Dragon Asia Food Limited, are for working capital, are unsecured, bear no interest, and are payable upon request, and funds are available. The Company and the major shareholder have agreed that no repayments will take place in 2009. The joint venture partner's amounts are similar to the condition of New Dragon Asia Food Limited loans and no repayment is expected in 2009.

NOTE 18. TAXATION

The PRC subsidiaries within the Company are subject to PRC income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which they operate. The group companies that are incorporated under the International Business Companies Act of the British Virgin Islands are exempt from payment of the British Virgin Islands income tax. Substantially all of the Company's income was generated in the PRC, which is subject to PRC income taxes at rates ranging from 24% to a statutory rate of 25%. Two of the PRC subsidiaries of the Company are eligible to be exempt from income taxes for a two-year period commencing with the year in which their operations are profitable and then subject to a 50% reduction in income taxes for the next three years, starting from their first profitable year. Several PRC subsidiaries receive preferential tax rates in regions in which they operated and are also entitled to partial tax refunds from those tax bureaus.

New Dragon Asia Corp. is a Florida corporation with wholly-owned operating subsidiaries. As a result, the Company is not subject to PRC tax for the activities at the Florida company level. Costs or expenses incurred at the Florida company level, such as the stock-based compensation and the amortization of financing costs and derivative accounting related to Series A Preferred Stock and Series B Preferred Stock, cannot be used to offset any income derived in the PRC when measuring the PRC income tax liabilities. As of June 25, 2009 and December 25, 2008, there were no material deferred tax assets or deferred tax liabilities. The expenses of the United States company are not recoverable against future taxable income in the United States or the PRC and meet the definition of permanent differences for tax accounting purposes. The Company has never been audited by the taxing authority in the United States or the PRC. The Company believes that it has filed properly in all required jurisdictions.

NOTE 19. COMPREHENSIVE INCOME

The following table summarizes the comprehensive income for the quarter ended June 25, 2009 and 2008:

	<u>June 25, 2009</u>	<u>June 25, 2008</u>
Net income (loss)	\$ (3,964)	\$ 3,738
Foreign currency translation adjustment	34	5,309
Comprehensive income (loss)	<u>\$ (3,930)</u>	<u>\$ 9,047</u>

NOTE 20. BUSINESS COMBINATION AND SIGNIFICANT ESTABLISHMENT

Longyuan Packaging Plant

On January 10, 2006, the Company established New Dragon Asia (Long Kou) Packing Materials Company Limited (“NDAPM”), a wholly-owned subsidiary in Longkou, Shandong Province. NDAPM is principally engaged in the manufacturing and sale of packing materials, with a registered capital of \$3,600,000. During the six months ended June 25, 2009, the Company spent approximately \$2.42 million on the construction at the new plant and has committed to further capital expenditures of \$0.51 million for the completion of the plant, which is scheduled to be completed in 2009.

NOTE 21. SEGMENT INFORMATION

The Company classifies its products into three core business segments; namely instant noodles, flour and soybean. In view of the fact that the Company operates principally in Mainland China, no geographical segment information is presented.

	<u>For the three months ended</u> <u>June 25,</u>		<u>For the six months ended</u> <u>June 25,</u>	
	<u>2009</u> <u>(US\$'000)</u>	<u>2008</u> <u>(US\$'000)</u>	<u>2009</u> <u>(US\$'000)</u>	<u>2008</u> <u>(US\$'000)</u>
Net revenue				
Instant noodles	1,001	3,535	2,065	6,930
Flour	3,356	8,207	5,355	14,322
Soybean	1,273	2,773	2,173	4,962
	<u>5,630</u>	<u>14,515</u>	<u>9,593</u>	<u>26,214</u>
Income (loss) from operation				
Instant noodles	(884)	222	(2,457)	550
Flour	(205)	1,231	(1,163)	2,298
Soybean	(384)	(18)	(793)	3
	<u>(1,473)</u>	<u>1,435</u>	<u>(4,413)</u>	<u>2,851</u>
Depreciation and amortization				
Instant noodles	246	274	444	548
Flour	95	164	243	337
Soybean	90	62	177	122
	<u>431</u>	<u>500</u>	<u>864</u>	<u>1,007</u>

	<u>June 25,</u> <u>2009</u> <u>(US\$'000)</u>	<u>December 25,</u> <u>2008</u> <u>(US\$'000)</u>
Identifiable long-term assets		
Instant noodles	15,923	13,084
Flour	8,952	8,667
Soybean	6,317	3,898
	<u>31,192</u>	<u>25,649</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

In addition to historical information, the matters discussed in this Form 10-Q contain forward-looking statements that involve risks or uncertainties. Generally, the words "believes," "anticipates," "may," "will," "should," "expect," "intend," "estimate," "continue," and similar expressions or the negative thereof or comparable terminology are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including the matters set forth in this report or other reports or documents we file with the Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update these forward-looking statements. Readers should carefully review the risks described in other documents we file from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended December 25, 2008, the Quarterly Reports on Form 10-Q filed by the Company and Current Reports on Form 8-K (including any amendments to such reports). References in this filing to the "Company", "Group", "we", "us", and "our" refer to New Dragon Asia Corp. and its subsidiaries.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimates are made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Contractual Joint Ventures

A contractual joint venture is an entity established between the Company and another joint venture partner, with the rights and obligations of each party governed by a contract. Currently, the Company has established three contractual joint ventures with three Chinese partners in China, with percentage of ownership ranging from 79.64% to 90%. Pursuant to each Chinese joint venture agreement, each Chinese joint venture partner is entitled to receive a pre-determined annual fee and is not responsible for any profit or loss, regardless of the ownership in the contractual joint venture. In view of such contracted profit sharing arrangement, the three contractual joint ventures are regarded as 100% owned by the Company. Hence, the Company's consolidated financial statements include the financial statements of the contractual joint ventures.

Revenue Recognition

Our revenues are generated from sales of flour and instant noodle. All of our revenue transactions contain standard business terms and conditions. We determine the appropriate accounting for these transactions after considering (1) whether a contract exists; (2) when to recognize revenue on the deliverables; and (3) whether all elements of the contract have been fulfilled and delivered. In addition, our revenue recognition policy requires an assessment as to whether collection is reasonably assured, which inherently requires us to evaluate the creditworthiness of our customers. Changes in judgments on these assumptions and estimates could materially impact the timing or amount of revenue recognition.

Accounting for Derivative Instruments

Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, requires all derivatives to be recorded on the Company's balance sheet at fair value. These derivatives, including embedded derivatives in the Company's Series A and B Redeemable Convertible Preferred Stock, are separately valued and accounted for on the Company's balance sheet.

The pricing models the Company uses for determining fair values of its derivatives are a combination of the Black-Scholes and Binomial Pricing Models. Valuations derived from this model are subject to ongoing internal and external review. The model uses market-sourced inputs such as interest rates and option volatilities. Selection of these inputs involves management's judgment and may impact net earnings. The Company has obtained a valuation report from a valuation firm to support its estimates.

In September 2000, the Emerging Issues Task Force ("EITF") issued EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock," ("EITF 00-19") which requires freestanding contracts that are settled in a company's own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value on a company's balance sheet, with any changes in fair value recorded in the company's results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required.

The Company has determined that the conversion features of its redeemable convertible preferred stock and warrants to purchase common stock are derivatives that the Company is required to account for as if they were free-standing instruments under U.S. GAAP. The Company has also determined that it is required to designate these derivatives as liabilities in its financial statements. As a result, the Company reports the value of these embedded derivatives as current liabilities on its balance sheet and reports changes in the value of these derivatives as non-operating gains or losses on its statement of operations. The value of the derivatives is required to be recalculated (and resulting non-operating gains or losses reflected in the statement of operations and resulting adjustments to the associated liability amounts reflected on the balance sheet) on a quarterly basis, and is based on the market value of the Company's common stock. Due to the nature of the required calculations and the large number of shares of the Company's common stock involved in such calculations, changes in the Company's common stock price may result in significant changes in the value of the derivatives and resulting gains and losses on the Company's statement of operations.

The consolidated financial statements also reflect additional non-operating gains and losses related to the classification of and accounting for: (1) the conversion features of the Series A and B Preferred Stock and associated warrants, (2) the amortization associated with the discount recorded with respect to the Series A and B Preferred Stock as a preferred stock dividend, and (3) the conversion features associated with the preferred stock issued by the Company and associated warrants.

Share-Based Payment

On December 16, 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on the grant date fair value of the award. Under SFAS No. 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive options, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS No. 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. We have adopted the requirements of SFAS No. 123R for the fiscal year beginning on December 26, 2005, and recorded the compensation expense for all unvested stock options.

Allowance for Doubtful Accounts

Management provides for an allowance for doubtful accounts for those third party trade accounts that are not collected within one year. We base our estimate (one year) on historical experience and on continuous monitoring of customers' credit and settlement. We believe we have reasonable basis for making judgments on the allowance for doubtful accounts.

We normally grant up to 90 days credit to our customers. We monitor our allowance for doubtful accounts on a monthly basis.

Inventories Valuation

Inventories are stated at the lower of cost, determined on a weighted average basis, or net realizable value. Costs of work-in-progress and finished goods are composed of direct material, direct labor and an attributable portion of manufacturing overhead. Net realizable value is the estimated selling price, in the ordinary course of business, less estimated costs to complete and dispose.

Recent Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Financial Accounting Standard (SFAS) 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," which is effective for fiscal years ending after December 15, 2009. The new standard expands disclosures for assets held by employer pension and other postretirement benefit plans. FSP SFAS 132(R)-1 will not affect the company's financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events,” which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company evaluated subsequent events after the balance sheet date of June 25, 2009 through the filing of this report with the SEC on August 10, 2009.

In June 2009, FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140.” SFAS 166 is applied to financial asset transfers on or after the effective date, which is January 1, 2010 for the company’s financial statements. SFAS 166 limits the circumstances in which a financial asset may be de-recognized when the transferor has not transferred the entire financial asset or has continuing involvement with the transferred asset. The concept of a qualifying special-purpose entity, which had previously facilitated sale accounting for certain asset transfers, is removed by SFAS 166. The company expects that SFAS 166 will not have a material effect on its financial position or results of operations.

In June 2009, FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” which deals with accounting for variable interest entities and is effective for reporting periods beginning after November 15, 2009. The amendments change the process for how an enterprise determines which party consolidates a variable interest entity (VIE) to a primarily qualitative analysis. SFAS 167 defines the party that consolidates the VIE (the primary beneficiary) as the party with (1) the power to direct activities of the VIE that most significantly affect the VIE’s economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Upon adoption of SFAS 167, reporting enterprises must reconsider their conclusions on whether an entity should be consolidated and should a change result, the effect on net assets will be recorded as a cumulative effect adjustment to retained earnings. The company expects that adoption of SFAS 167 will not have a material effect on its financial position or results of operations.

In March 2008, the FASB issued statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (SFAS 161). SFAS 161 requires entities that use derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity’s financial position, financial performance, and cash flows. The Company adopted the provisions of SFAS 161 effective December 26, 2008, and no additional disclosure were required.

In January 2009, the FASB released Proposed Staff Position SFAS 107-b and Accounting Principles Board (APB) Opinion No. 28-a, “Interim Disclosures about Fair Value of Financial Instruments” (SFAS 107-b and APB 28-a). This proposal amends FASB Statement No. 107, “Disclosures about Fair Values of Financial Instruments,” to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The proposal also amends APB Opinion No. 28, “Interim Financial Reporting,” to require those disclosures in all interim financial statements. This proposal is effective for interim periods ending after June 15, 2009. The Company adopted SFAS 107-b and APB 28-a, and no additional disclosure were required.

In March 2009, the FASB released Proposed Staff Position SFAS 157-e, “Determining Whether a Market Is Not Active and a Transaction Is Not Distressed” (SFAS 157-e). This proposal provides additional guidance in determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS 157, “Fair Value Measurements.” SFAS 157-e is effective for interim periods ending after June 15, 2009. We have determined that the standard did not have a material impact on the Company’s financial position, cash flows, or disclosures.

In March 2009, the FASB issued Proposed Staff Position SFAS 115-a, SFAS 124-a, and EITF 99-20-b, “Recognition and Presentation of Other-Than-Temporary Impairments.” This proposal provides guidance in determining whether impairments in debt securities are other than temporary, and modifies the presentation and disclosures surrounding such instruments. This Proposed Staff Position is effective for interim periods ending after June 15, 2009. We have determined that the standard did not have a material impact on the Company’s financial position, cash flows, or disclosures.

Overview

Headquartered in Shandong Province, PRC, we are engaged in the milling, sale, and distribution of flour and related products, including instant noodles and soybean-derived products, to retail and wholesale customers throughout China. We market our products with our brand name called “LONG FENG” through a countrywide network of distributors. We have eight manufacturing plants in the PRC with an aggregate annual production capacity of approximately 110,000 tons of flour and approximately 1.1 billion packets of instant noodles and 4,500 tons of soybean powder.

Operations

We produce and market a broad range of wheat flour for use in bread, dumplings, noodles, and confectionary products. Our flour products are marketed under the “Long Feng” brand name and sold throughout China at both wholesale and retail levels.

We provide a wide range of instant noodle products to our customers. Our products can be separated into two broad categories for selling and marketing purposes: (i) packet noodles for home preparation and (ii) snacks and cup noodles for outdoor convenience.

We produce two types of soybean products - soybean protein powder and soybean powder. They are principally supplied to food and beverage producers.

We believe that we have a reputation in China for producing some of the highest quality food products. We believe our production plants operate at a high level of hygiene and efficiency and all of our plants are certified under the ISO9002 standards. We also use strict quality control systems, resulting in what we believe to be a favorable customer perception of the “Long Feng” brand.

Our products are marketed and distributed throughout China by our distributors. Our sales and marketing strategy focuses on maintaining strong distribution relationships by holding annual sales order meetings, regular distributor conferences and an excellent quality/price dynamic.

We believe our distribution system is the key to our continued success in developing the “Long Feng” brand as one of the famous domestic brands in China. Most of our distributors have long-term relationships with us.

Our primary domestic customer base for both our flour products and instant noodles consists of small retail stores in the rural areas throughout China where we believe that our brand has long been recognized as the highest quality available for the price. The rural market is rapidly growing, benefiting from increases in rural consumer income. We believe that brand loyalty by our customers is very strong in this sector. In addition to the small retail sector, we sell to larger supermarkets located in urban areas.

In addition to domestic sales, we export noodles to other countries such as South Korea, Australia, Malaysia, and Indonesia. We also obtained HACCP (Hazard Analysis Critical Control Point) certification from CCIC Conformity Assessment Services Co. Ltd., a Chinese quality assurance examination authority, enabling the company to export instant noodles and soybean powder to Europe and Africa.

Strategy

Our strategy for growth is to capitalize on our strong brand name and pursue strategic partnerships and acquisitions that will enhance our sales. The following are some of the key elements of our business growth strategy:

- Acquire additional locations to increase our production capacity
- Build strategic alliances with multinational food groups to enhance product range and capitalize on our China distribution network

Plans for expansion of the existing plants are expected to be funded through current working capital from ongoing sales. Acquisitions of plants will require an additional infusion of funds in the form of debt or equity, or a combination of both. However, there can be no assurance these funds will be available.

Competition

The flour industry in the PRC is very competitive. Our largest competitors are Shandong Guang Rao Ban Qiu Flour and Hebei Wu De Li Flour in the Northern market and Shenzhen Nanshun Flour in the Southern market.

The instant noodle segment in the PRC is also highly competitive. We compete against well-established foreign companies and many smaller companies. Our largest competitors are the “Master Kang” brand manufactured by Tingyi (Cayman Island) Holdings Corporation and the “President” brand manufactured by Uni-President Group, both based in Taiwan. Both are focused predominately in the more developed and competitive urban markets. We do not face substantial competition in the “high-quality” soybean powder market.

Employees

We employ approximately 1,500 employees. All of them are located in the eight plants. We have maintained good relationships with our employees and no major disputes have occurred since our inception.

Currency Conversion and Exchange

Although the Chinese government regulations now allow convertibility of Renminbi (“RMB”) for current account transactions, significant restrictions still remain. Hence, such translations should not be construed as representations that RMB could be converted into U.S. dollars at that rate or any other rate.

Substantially all our revenue and expenses are denominated in RMB. Our RMB cash inflows are sufficient to service our RMB expenditures. For financial reporting purposes, we use U.S. dollars. The value of RMB against U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. Any significant revaluation of RMB may materially affect our financial condition in terms of U.S. dollar reporting. To date, we have not engaged in any currency hedging transactions in connection with our operations.

Results of Operations

The following table sets forth, for the periods indicated, certain operating information expressed in U.S. dollars (in thousands):

	Three months ended		Six months ended	
	June 25,		June 25,	
	2009	2008	2009	2008
Net revenue	\$ 5,630	\$ 14,515	\$ 9,593	\$ 26,214
Cost of goods sold	(6,513)	(11,970)	(12,031)	(21,527)
Gross profit	(883)	2,545	(2,438)	4,687
Selling and distribution expenses	(148)	(369)	(367)	(590)
General and administrative expenses	(442)	(741)	(1,608)	(1,246)
Gain on fair value adjustments to embedded derivatives	53	738	173	1,428
Income (loss) before income taxes	(1,471)	2,228	(4,315)	4,524
Income taxes benefit (expense)	—	(472)	349	(786)
Net income (loss) attributable to controlling interest	(1,470)	1,756	(3,964)	3,738

Six Months Ended June 25, 2009 Compared to Six Months Ended June 25, 2008

Net Revenue

Net revenue for the six months ended June 25, 2009 was \$9,593,000, representing a decrease of \$16,621,000, or 63%, from \$26,214,000 for the six months ended June 25, 2008.

Revenues declined in all segments with instant noodles decreasing 70%, flour products decreasing 63% and soybean products declining 56%. The demand for our products decreased significantly and was responsible for 90% of the revenue decline. The price of our instant noodle also decreased and attributed to 10% of the revenue decline. We believe our revenues were affected by the abrupt slowdown in the economy worldwide.

Cost of goods sold

For the six months ended June 25, 2009, cost of goods sold was \$12,031,000, a decrease of \$9,496,000, or 44%, as compared to \$21,527,000 for the six months ended June 25, 2008. The decrease was in line with the decrease in sales of our products.

For the six months ended June 25, 2009, as a percentage of revenue, cost of goods sold increased to 125% as compared to 82% for that of the prior year. For the six months ended June 25, 2009, gross margin (loss) was (25)% as compared to 18% for the prior year. The loss in 2009 is due to 1) losses sustained on our higher end noodle products, as a result of the weakening economy, and 2) a charge to cost of goods sold of approximately \$2.0 million as a reserve to inventory. In our estimate, the reserve reduces inventory to a level that will allow us to produce finished goods inventory at a cost that will allow us to recover selling costs and realize normal gross margins upon sale.

Selling and Distribution Expenses

Selling and distribution expenses consist primarily of salaries, commissions and associated employee benefits, travel expenses of sales and marketing personnel and promotional expenses.

Selling and distribution expenses were \$367,000 for the six months ended June 25, 2009, representing a decrease of \$223,000 or 38% from \$590,000 for the corresponding period of 2008. The decrease was in line with the decrease in sales of our products.

As a percentage of net revenue, selling and distribution expenses increased to 4% for the six months ended June 25, 2009 as compared to 2% for the corresponding period in 2008. The increase was primarily due to the rapid decrease in the sales of our products.

General and Administrative Expenses

General and administrative expenses increased by \$362,000, or 29%, to \$1,608,000 for the six months ended June 25, 2009 as compared to \$1,246,000 for the corresponding period in 2008. The increase was primarily due to the provision for bad debt due from customers who were seriously affected by the abrupt slowdown in the economy worldwide.

Gain (Loss) on Fair Value Adjustments to Embedded Derivatives

The Company issued Series A Redeemable Convertible Preferred Stock in July 2005, together with 3,157,895 warrants to purchase Class A Common Stock resulting in aggregate proceeds of \$6 million. The Company also issued Series B Redeemable Convertible Preferred Stock in December 2005, together with 2,968,750 warrants to purchase Class A Common Stock resulting in aggregate proceeds of \$9.5 million. The fair value of each instrument was recorded as a derivative liability on our balance sheet. The corresponding gain or loss, which was non-cash in nature, from changes in the fair values of these instruments was recorded in our statement of income. For the six months ended June 25, 2009, the gain in this regard was \$173,000. For the corresponding period of 2008, the gain in this regard was \$1,428,000. The determination of the change in the value of the derivatives requires the use of a complex valuation model and can fluctuate significantly between periods based on changes in the price of our shares and the time remaining in the life of the underlying financial instruments. Increase in our stock's market value increases the value of the derivative creating losses in our income statements and decrease in the stock's market value reduces the value of the derivatives creating gains in our income statements.

Net Income (Loss) Attributable to Controlling Interests

Net loss attributable to controlling interest was \$3,964,000 for the six months ended June 25, 2009 as compared to net income attributable to controlling interest of \$3,738,000 for the six months ended June 25, 2008. Such decrease was primarily due to the decline in sales and provision for bad debt and raw material.

Three Months Ended June 25, 2009 Compared to Three Months Ended June 25, 2008

Net Revenue

Net revenue for the quarter ended June 25, 2009 was \$5,630,000, representing a decrease of \$8,885,000, or 61%, from \$14,515,000 for the quarter ended June 25, 2008.

Revenues declined in all segments with instant noodles decreasing 72%, flour products decreasing 59% and soybean products declining 54%. The demand for our products decreased significantly and was responsible for 90% of the revenue decline. The price of our instant noodle also decreased and attributed to 10% of the revenue decline. We believe our revenues were affected by the abrupt slowdown in the economy worldwide.

Cost of goods sold

For the three months ended June 25, 2009, cost of goods sold was \$6,513,000, a decrease of \$5,457,000, or 46%, as compared to \$11,970,000 for the three months ended June 25, 2008. The decrease was in line with the decrease in sales of our products.

For the three months ended June 25, 2009, as a percentage of revenue, cost of goods sold increased to 116% as compared to 82% for that of the prior year. For the three months ended June 25, 2009, gross margin (loss) was (16)% as compared to 18% for the prior year. The loss in 2009 is due to 1) losses sustained on our higher end noodle products, as a result of the weakening economy, and 2) a charge to cost of goods sold of approximately \$0.6 million as a reserve to inventory. In our estimate, the reserve reduces inventory to a level that will allow us to produce finished goods inventory at a cost that will allow us to realize normal gross margins upon sale.

Selling and Distribution Expenses

Selling and distribution expenses consist primarily of salaries, commissions and associated employee benefits, travel expenses of sales and marketing personnel and promotional expenses.

Selling and distribution expenses were \$148,000 for the quarter ended June 25, 2009, representing a decrease of \$221,000 or 60% from \$369,000 for the corresponding quarter of 2008. The decrease was primarily due to the cost controls implemented by us.

As a percentage of net revenue, selling and distribution expenses increased to 3% for the quarter ended June 25, 2009 as compared to 2% for the corresponding period in 2008. The increase was primarily due to the decrease in the sales of our products.

General and Administrative Expenses

General and administrative expenses decreased by \$299,000, or 40%, to \$442,000 for the quarter ended June 25, 2009 as compared to \$741,000 for the corresponding quarter in 2008. The decrease was primarily due to the cost controls implemented by us.

Gain (Loss) on Fair Value Adjustments to Embedded Derivatives

The Company issued Series A Redeemable Convertible Preferred Stock in July 2005, together with 3,157,895 warrants to purchase Class A Common Stock resulting in aggregate proceeds of \$6 million. The Company also issued Series B Redeemable Convertible Preferred Stock in December 2005, together with 2,968,750 warrants to purchase Class A Common Stock resulting in aggregate proceeds of \$9.5 million. The fair value of each instrument was recorded as a derivative liability on our balance sheet. The corresponding gain or loss, which was non-cash in nature, from changes in the fair values of these instruments was recorded in our statement of income. For the quarter ended June 25, 2009, the gain in this regard was \$53,000. For the corresponding period of 2008, the gain in this regard was \$738,000. The determination of the change in the value of the derivatives requires the use of a complex valuation model and can fluctuate significantly between periods based on changes in the price of our shares and the time remaining in the life of the underlying financial instruments. Increase in our stock's market value increases the value of the derivative creating losses in our income statements and decrease in the stock's market value reduces the value of the derivatives creating gains in our income statements.

Net Income (Loss) Attributable to Controlling Interests

Net loss attributable to controlling interest was \$1,470,000 for the quarter ended June 25, 2009 as compared to net income attributable to controlling interest of \$1,756,000 for the quarter ended June 25, 2008. Such decrease was primarily due to the decline in sales and provision for bad debt and raw material.

Financial Condition, Liquidity and Capital Resources

The Company's primary liquidity needs are for the purchase of inventories and funding accounts receivable and capital expenditures. Historically, the Company has financed its working capital requirements through a combination of internally generated cash and advances from related companies.

Our working capital decreased \$8,446,000 to \$41,377,000 at June 25, 2009 as compared to \$49,823,000 at December 25, 2008, which was primarily due to the disposal of the assets held for disposal and provision for bad debt and raw material.

Cash and cash equivalents were \$7,352,000 as of June 25, 2009, an increase of \$2,969,000 from December 25, 2008. The Company believes that it has enough cash available and expects to have enough income and cash flow from operations to operate for the next 12 months.

Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have not formed any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

Contractual Obligations and Commercial Commitments

On July 11, 2005, we issued 6,000 shares of Series A Preferred Stock, convertible into an aggregate of 6,315,789 shares of Class A Common Stock at a conversion price of \$0.95 per share (subject to anti-dilution adjustments and interest payments), raising \$6.0 million in gross proceeds.

On December 22, 2005, we issued 9,500 shares of Series B Preferred Stock, convertible into an aggregate of 5,937,500 shares of Class A Common Stock at a conversion price of \$1.60 per share (subject to anti-dilution adjustments and interest payments), raising \$9.5 million in gross proceeds.

The key terms of the Series A Preferred Stock and Series B Preferred Stock are as follows:

	Series A Preferred Stock	Series B Preferred Stock
Preferred Dividend	7% per annum, payable quarterly in arrears in cash or, at the Company's option subject to satisfaction of certain conditions, shares of Class A Common Stock valued at 95% of the volume-weighted current market price.	7% per annum, payable quarterly in arrears in cash or, at the Company's option subject to satisfaction of certain conditions, shares of Class A Common Stock valued at 95% of the volume-weighted current market price.
Redemption	July 11, 2010 Beginning on the 24th month following closing and each month thereafter, the Company shall redeem 1/37th of the face value of the Preferred Stock in either cash or Class A Common Stock valued at 90% of the volume-weighted current market price.	December 22, 2010 Beginning at the end of the 24th month following closing and on each third monthly anniversary of that date (quarterly) thereafter, the Company shall redeem 1/13th of the face value of the Preferred Stock in either cash or Class A Common Stock valued at 90% of the volume-weighted current market price.
Mandatory Conversion	The Company may at any time force the conversion of the Preferred Stock if the volume-weighted current market price of the Class A Common Stock exceeds 300% of the then applicable conversion price.	The Company may at any time force the conversion of the Preferred Stock if the volume-weighted current market price of the Class A Common Stock exceeds 200% of its price at issuance of the Preferred Stock.
Registration	The Company shall file to register the underlying Class A common shares within 30 days of the closing date and make its best efforts to have the Registration declared effective at the earliest date. In the event such Registration is not continuously effective during the period such shares are subject to transfer restrictions under the U.S. federal securities laws, then (subject to certain exceptions) the holders are entitled to receive liquidated damages equal to 2.0% of the purchase price of the Preferred Stock per month.	The Company shall file to register the underlying Class A common shares with 30 days of the closing date and make its best efforts to have the Registration declared effective at the earliest date. In the event such Registration is not continuously effective during the period such shares are subject to transfer restrictions under the U.S. federal securities laws, then (subject to certain exceptions) the holders are entitled to receive liquidated damages equal to 2.0% of the purchase price of the Preferred Stock per month.
Anti-dilution	In the event the Company issues, at any time while Preferred Stock are still outstanding, Common Stock or any type of securities giving rights to Common Stock at a price below the Issue Price, the Company agrees to extend full-ratchet anti-dilution protection to the investors.	In the event the Company issues, at any time while Preferred Stock are still outstanding, Common Stock or any type of securities giving rights to Common Stock at a price below the Issue Price, the Company agrees to extend full-ratchet anti-dilution protection to the investors.

As of June 25, 2009, the Company had long-term debt obligations that resulted from the redeemable convertible preferred stock and the pre-determined annual fee charged by joint venture partners through February 2009 and other commitments and long-term liabilities through August 2049 as follows:

	Payment Obligations By Period						
	2009	2010	2011	2012	2013	Thereafter	Total
	(In thousands)						
Redeemable convertible preferred stock	\$ 1,770	\$ 3,227	\$ —	\$ —	\$ —	\$ —	\$ 4,997
Pre-determined annual fee charged by joint venture partners	65	129	129	129	129	4,528	5,109
Total	\$ 1,835	\$ 3,356	\$ 129	\$ 129	\$ 129	\$ 4,528	\$ 10,106

Reconciliation of the outstanding payment obligations of redeemable convertible preferred stock:

	(In thousands)
Aggregated balance as of the issue date	\$ 15,500
Partial redemption of Series A Preferred Stock in 2005	(1,900)
Partial redemption of Series A and B Preferred Stock in 2006	(3,438)
Partial redemption of Series A Preferred Stock in 2007	(728)
Partial redemption of Series A and B Preferred Stock in 2008	(2,933)
Partial redemption of Series A and B Preferred Stock in 2009	(1,504)
	\$ 4,997

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We may be exposed to changes in financial market conditions in the normal course of business. Market risk generally represents the risk that losses may occur as a result of movements in interest rates and equity prices. We currently do not use financial instruments in the normal course of business that are subject to changes in financial market conditions.

Currency Fluctuations and Foreign Currency Risk

The majority of our operations are conducted in the PRC except for some minor export business and limited overseas purchases of raw materials. Most of our sales and purchases are conducted within the PRC in Chinese Renminbi. Hence, the effect of the fluctuations of the Renminbi exchange rate relative to other currencies is considered minimal to our business operations. However, we use the United States dollar for financial reporting purposes and therefore, fluctuations in the exchange rate between the Renminbi and the U.S dollar will result in increases or decreases in other comprehensive income or loss. Conversion of Renminbi into foreign currencies is regulated by The People's Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of Renminbi, there can be no assurance that such exchange rate will not again become volatile or that Renminbi will not strengthen or devalue significantly against the US dollar. Exchange rate fluctuations may adversely affect the value, in US dollar terms, of our net assets and income derived from our operations in the PRC.

Interest Rate Risk

The Company does not have significant interest rate risk, as our debt obligations are primarily short-term in nature, with fixed interest rates. Our embedded derivatives liabilities are revalued each accounting period and their fair value can be affected by interest rate fluctuations based on changes in the risk free interest rate (generally the interest rate on intermediate term obligations of the United States Government).

Credit Risk

We have not experienced significant credit risk as most of our customers are long-term customers with good payment records. Our receivables are regularly monitored by our credit manager.

Item 4T. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and the chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of June 25, 2009, the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the material information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to us and our consolidated subsidiaries, and communicated to our management (including our principal executive and principal financial officers or persons performing similar functions) as appropriate to allow timely decisions regarding required disclosure, particularly during the period when this report was being prepared.

Changes in internal controls over financial reporting

There were no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the three months ended June 25, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

There have been no material changes in our business, operations or prospects that would require a change to the Risk Factor disclosure included in our most recent Annual Report on Form 10-K that have not already been disclosed.

The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company currently deemed immaterial also may impair the Company's business operations. If any of the following risks occur, the Company's business prospects, financial condition, operating results and cash flows could be adversely affected in amounts that could be material.

RISKS RELATED TO OUR CLASS A COMMON STOCK

We have never declared or paid any dividends on our Class A Common Stock

We have never declared or paid any dividends on our Class A Common Stock. Our ability to pay such cash dividends is subject to our receipt of dividends from our operating subsidiaries, which are subject to legal restrictions in the PRC on making such payments. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. The declaration and payment in the future of any cash or stock dividends on the Class A Common Stock will be at the discretion of our Board of Directors and will depend upon a variety of factors, including our ability to service our outstanding indebtedness, if any, and to pay dividends on securities ranking senior to the Class A Common Stock, including the shares of our outstanding Series A and Series B Preferred Stock; our future earnings, if any; capital requirements; financial condition; plans for expansion; restrictions imposed by PRC law; any financing arrangements; and such other factors as our Board of Directors may consider to be relevant from time to time. We do not expect to declare or pay any dividends on our Class A Common Stock in the foreseeable future.

We are controlled by our major shareholder

Our major shareholder, New Dragon Asia Food Ltd., which is controlled by our Chairman, Mr. Heng Jing Lu, owns approximately 25% of our outstanding shares. Mr. Lu has sole voting and dispositive control over the shares of us held by New Dragon Asia Food Ltd.

Our primary source of funds for dividends and other distributions from our operating subsidiary in China is subject to various legal and contractual restrictions and uncertainties, and our ability to pay dividends or make other distributions to our shareholders are negatively affected by those restrictions and uncertainties

We are a holding company established in the state of Florida and conduct our core business operations through our operating subsidiaries, Hero Treasure Ltd., Delta Link Ltd., Mix Creation Ltd., Rich Delta Ltd. and Keen General Ltd. and their respective subsidiaries in China. As a result, our profits available for distribution to our shareholders are dependent on the profits available for distribution from our subsidiaries. If our subsidiaries incur debt on their own behalf, the debt instruments may restrict their ability to pay dividends or make other distributions, which in turn would limit our ability to pay dividends on our shares. Under the current PRC laws, because we are incorporated in the State of Florida, our PRC subsidiaries are each regarded as a wholly foreign-owned enterprise in China. The PRC laws permit payment of dividends only out of net income as determined in accordance with PRC accounting standards and regulations. Determination of net income under PRC accounting standards and regulations may differ from determination under U.S. GAAP in significant aspects, such as the use of different principles for recognition of revenues and expenses. In addition, distribution of additional equity interests by any of our PRC subsidiaries to us (which is credited as fully paid through capitalization of the PRC subsidiaries' undistributed profits) requires additional approval of the PRC government due to an increase in our registered capital and total investment in the subsidiary. Under current PRC laws, each of our subsidiaries is required to set aside a portion of its net income each year to fund designated statutory reserve funds. These reserves are not distributable as cash dividends. As a result, our primary internal source of funds for dividend payments from the subsidiaries are subject to these and other legal and contractual restrictions and uncertainties, which in turn may limit or impair our ability to pay dividends to our shareholders. Moreover, any transfer of funds from us to our subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration with or approval by PRC governmental authorities. These limitations on the flow of funds between us and the subsidiaries could restrict our ability to act in response to changing market conditions.

Regulations relating to offshore investment activities by PRC residents may adversely affect our business and prospects

On September 8, 2006, several agencies of the PRC government issued a regulation concerning restrictions on investments in China through special purpose companies incorporated overseas and the listing of the shares of those companies in overseas markets. The regulation contains a number of provisions relating to the acquisition of Chinese domestic companies which involve “important industries” and may affect the national economic safety or result in the transfer of actual control rights of any company having “famous brands” or any “old established Chinese brands,” and require that the parties to any such transaction report to the Ministry of Commerce for approval. Additionally, any foreign company directly or indirectly controlled by Chinese companies or individuals used as a vehicle for public listing in an overseas stock market will need China Securities Regulatory Commission approval in connection with such listing. As it is uncertain how this new regulation will be interpreted or implemented, we cannot predict how this regulation will affect our business operations or future strategies. For example, we may be subject to a more stringent review and approval process with respect to our acquisition activities, which may adversely affect our business and prospects.

RISKS RELATED TO OUR BUSINESS

The effects of the global financial crisis on our business have been severe

From the middle of 2008 until the middle of 2009, the international capital markets experienced severe volatility and exhibited overall significant declines in prices of equity securities, which events taken in combination with a freezing of international credit markets and lack of availability of private capital led to a near shutdown of private flows of capital. In addition, several high profile acquisitions and bankruptcies and the alleged fraud perpetrated by Bernard Madoff exacerbated a lack of confidence in global financial institutions and their oversight.

Government responses to these events have included partial nationalization of certain industries and enterprises, “bail-out” packages intended to provide liquidity to market participants, stimulus measures designed to reinvigorate national economies. Consumers, on the other hand, have pulled back spending on a global scale, including with respect to those items otherwise considered recession proof such as food products. Our ability to operate our business has been materially adversely affected by these events. In addition, the effects of the global financial crisis on the industry and geographic sectors that we are engaged in are just beginning to become apparent and it is impossible to predict the full impact they may have on us, including with respect to our expansion plans and the capital required to implement such strategy. While we intend to conserve capital in order to keep operating, it is very difficult for us to anticipate future trends in the PRC food industry or in the PRC economy in general, each of which materially affects our business.

We may be subject to product liability claims and product recalls that could result in a decrease in demand for our products due to negative publicity, which could negatively impact our profitability.

We sell food products for human consumption, which involves risks such as product contamination or spoilage, product tampering and other adulteration of food products. We may be subject to liability if the consumption of any of our products causes injury, illness or death. In addition, we will voluntarily recall products in the event of contamination or damage. A significant product liability judgment or a widespread product recall may negatively impact our profitability for a period of time depending on product availability, competitive reaction and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that company products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image.

In September 2008, the Health Ministry of the People’s Republic of China announced that several babies had died in recent months and thousands more had been sickened by contaminated milk formula powder due to the presence of melamine, an industrial chemical sometimes used to make plastics and fertilizer. On October 22, 2008, the United Nations issued a paper addressing food safety in China, citing key challenges for China as the need for a more modern food safety law; the need for improved monitoring, inspection and enforcement; and the need to continue to improve standards to bring China in line with international norms. Although none of our products contain milk powder, negative international publicity surrounding this food safety issue could influence the popular perceptions of international consumers and result in lower demand for exports of food products from China, which could have an adverse effect on our sales and profitability.

Our business may experience adverse effects from competition in the noodle, flour and soybean product markets.

The noodle, flour and soybean product markets in the PRC are highly competitive. Competition in these markets takes many forms, including the following:

- establishing favorable brand recognition;
- developing products sought by consumers;
- implementing appropriate pricing;
- providing strong marketing support; and
- obtaining access to retail outlets and sufficient shelf space.

Many of our competitors are larger and have greater financial resources, including our primary competitors, the manufactures of each of the brand names “Master Kang” and “President”. We may not be able to compete successfully with such competitors. Competition could cause us to lose our market share, increase expenditures or reduce pricing, each of which could have a material adverse effect on our business and financial results.

An inability to respond quickly and effectively to new trends would adversely impact our competitive position.

Our failure to maintain our technological capabilities or to respond effectively to technological changes could adversely affect our ability to retain existing business and secure new business. We will need to constantly seek out new products and develop new solutions to maintain in our portfolio. If we are unable to keep current with new trends, our competitors’ technologies or products may render us noncompetitive and our products obsolete.

Increases in prices of main ingredients and other materials could adversely affect our business.

The main ingredients that we use to manufacture our products are wheat, soybeans and eggs. We also use paper products, such as corrugated cardboard, as well as films and plastics, to package our products. The prices of these materials have been, and we expect them to continue to be, subject to volatility. We may not be able to pass price increases in these materials onto our customers, which could have an adverse effect on our financial results.

We are subject to risks associated with joint ventures and third party agreements.

We conduct certain of our milling and sales operations through joint ventures established with certain Chinese parties. Any deterioration of these strategic relationships may have an adverse effect on our operations. Changes in laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

We may have limited legal recourse under Chinese law if disputes arise under our agreements with joint ventures or third parties. The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, the government’s experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our new business ventures are unsuccessful, or other adverse circumstances arise from these transactions, we face the risk that the parties to these ventures may seek ways to terminate the transactions, or, may hinder or prevent us from accessing important information regarding the financial and business operations of these acquired companies. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under Chinese law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

We have limited business insurance coverage.

The insurance industry in China is still in an early stage of development. Insurance companies in China offer limited business insurance coverage. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, management has determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

We may experience risks resulting from our plans for expansion.

We have acquired several companies and businesses and plan to continue to acquire companies in the future. Entering into an acquisition entails many risks, any of which could harm our business, including: (a) diversion of management’s attention from other business concerns; (b) failure to integrate the acquired company with our existing businesses; (c) additional operating expenses not offset by additional revenue; and (d) dilution of our stock as a result of issuing equity securities.

If we are unable to implement our acquisition strategy, we may be less successful in the future. A key component of our growth strategy is accomplished by acquiring additional flour, noodle and soybean factories. While there are many such companies, we may not always be able to identify and acquire companies meeting our acquisition criteria on terms acceptable to us. Additionally, financing to complete significant acquisitions may not always be available on satisfactory terms. Further, our acquisition strategy presents a number of special risks to us that we would not otherwise contend with absent such strategy, including possible adverse effects on our earnings after each acquisition, diversion of management's attention from our core business due to the special attention that a particular acquisition may require, failure to retain key acquired personnel and risks associated with unanticipated events or liabilities arising after each acquisition, some or all of which could have a material adverse effect on our business, financial condition and results of operations.

A general economic downturn, a recession in China or sudden disruption in business conditions may affect consumer purchases of discretionary items, including instant noodles and soybean-derived products, which could adversely affect our business.

Consumer spending is generally affected by a number of factors, including general economic conditions, the level of unemployment, inflation, interest rates, energy costs, gasoline prices and consumer confidence generally, all of which are beyond our control. Consumer purchases of discretionary items tend to decline during recessionary periods, when disposable income is lower, and may impact sales of our products. In addition, sudden disruptions in business conditions as a result of a terrorist attack, retaliation and the threat of further attacks or retaliation, war, adverse weather conditions and climate changes or other natural disasters, pandemic situations or large scale power outages can have a short or, sometimes, long-term impact on consumer spending. A downturn in the economy in China, including any recession or a sudden disruption of business conditions in those economies, could adversely affect our business, financial condition, and results of operation.

RISKS ASSOCIATED WITH DOING BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA.

We are subject to the risks associated with doing business in the People's Republic of China.

As most of our operations are conducted in the PRC, we are subject to special considerations and significant risks not typically associated with companies operating in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. Our results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Although the majority of productive assets in the PRC are owned by the Chinese government, in the past several years the government has implemented economic reform measures that emphasize decentralization and encourage private economic activity. Because these economic reform measures may be inconsistent or ineffectual, there are no assurances that:

- We will be able to capitalize on economic reforms;
- The Chinese government will continue its pursuit of economic reform policies;
- The economic policies, even if pursued, will be successful;
- Economic policies will not be significantly altered from time to time; and
- Business operations in China will not become subject to the risk of nationalization.

Economic reform policies or nationalization could result in a total investment loss in our Class A Common Stock.

Since 1979, the Chinese government has reformed its economic systems. Because many reforms are unprecedented or experimental, they are expected to be refined and improved. Other political, economic and social factors, such as political changes, changes in the rates of economic growth, unemployment or inflation, or in the disparities in per capita wealth between regions within China, could lead to further readjustment of the reform measures. This refining and readjustment process may negatively affect our operations.

Over the last few years, China's economy has registered a high growth rate. Recently, there have been indications that rates of inflation have increased. In response, the Chinese government has taken measures to curb this excessively expansive economy. These measures include restrictions on the availability of domestic credit, reducing the purchasing capability of certain of our customers, and limited re-centralization of the approval process for purchases of some foreign products. The Chinese government may adopt additional measures to further combat inflation, including the establishment of freezes or restraints on certain projects or markets. These measures may adversely affect our manufacturing operations.

To date, reforms to China's economic system have not adversely impacted our operations and are not expected to adversely impact operations in the foreseeable future; however, there can be no assurance that the reforms to China's economic system will continue or that we will not be adversely affected by changes in China's political, economic, and social conditions and by changes in policies of the Chinese government, such as changes in laws and regulations, measures which may be introduced to control inflation and changes in the rate or method of taxation.

On November 11, 2001, China signed an agreement to become a member of the World Trade Organization ("WTO"), the international body that sets most trade rules, further integrating China into the global economy and significantly reducing the barriers to international commerce. China's membership in the WTO was effective on December 11, 2001. China has agreed upon its accession to the WTO to reduce tariffs and non-tariff barriers, remove investment restrictions and provide trading and distribution rights for foreign firms. The tariff rate reductions and other enhancements will enable us to develop better investment strategies. In addition, the WTO's dispute settlement mechanism provides a credible and effective tool to enforce members' commercial rights. Also, with China's entry to the WTO, it is believed that the relevant laws on foreign investment in China will be amplified and will follow common practices.

The Chinese legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to investors.

The Chinese legal system is a system based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited legal precedents. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. Two examples are the promulgation of the Contract Law of the PRC to unify the various economic contract laws into a single code, which went into effect on October 1, 1999, and the Securities Law of the People's Republic of China, which went into effect on July 1, 1999. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the Chinese legal system develops, changes in such laws and regulations, their interpretation or their enforcement may have a material adverse effect on our business operations.

Enforcement of regulations in China may be inconsistent.

Although the Chinese government introduced new laws and regulations to modernize its securities and tax systems on January 1, 1994, China does not yet possess an expansive body of business law. As a result, the enforcement, interpretation and implementation of regulations may prove to be inconsistent and it may be difficult to enforce contracts.

We may experience lengthy delays in resolution of legal disputes.

As China has not developed a dispute resolution mechanism similar to the Western court system, dispute resolution over Chinese projects and joint ventures can be difficult and there is no assurance that any dispute involving our business in China can be resolved expeditiously and satisfactorily.

We may experience an impact of the United States Foreign Corrupt Practices Act on our business.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. We have attempted to implement safeguards to prevent and discourage such practices by our employees and agents. We cannot assure you, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

Impact of governmental regulation on our operations.

We may be subjected to liability for product safety that could lead to a product recall. Our operations and properties are subject to regulation by various Chinese government entities and agencies. As a producer of food products, our operations are subject to production, packaging, quality, labeling and distribution standards. Our production and distribution facilities are also subject to various local environmental laws and workplace regulations.

We believe that our current legal and environmental compliance programs adequately address such concerns and that we are in compliance with applicable laws and regulations. However, compliance with, or any violation of, current and future laws or regulations could require material expenditures or otherwise adversely affect our business and financial results.

We may be liable if the consumption of any of our products cause injury, illness or death. We may also be required to recall certain of our products that become contaminated or are damaged. We are not aware of any material product liability judgment against us. However, a product liability judgment or a product recall could have a material adverse effect on our business or financial results.

It may be difficult to serve us with legal process or enforce judgments against our management or us.

All of our assets are located in China. In addition, all of our directors and officers are non-residents of the United States, and all, or substantial portions of the assets of such non-residents, are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon such persons. Moreover, there is doubt as to whether the courts of China would enforce:

- Judgments of United States courts against us, our directors or our officers based on the civil liability provisions of the securities laws of the United States or any state; or

- Original actions brought in China relating to liabilities against non-residents or us based upon the securities laws of the United States or any state.

The Chinese government could change its policies toward private enterprise or even nationalize or expropriate it, which could result in the total loss of your investment.

Our business is subject to significant political and economic uncertainties and may be adversely affected by political, economic and social developments in China. Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activity and greater economic decentralization. The Chinese government may not continue to pursue these policies or may significantly alter them to our detriment from time to time with little, if any, prior notice. Changes in policies, laws and regulations or in their interpretation or the imposition of confiscatory taxation, restrictions on currency conversion, restrictions or prohibitions on dividend payments to shareholders, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business. Nationalization or expropriation could even result in the total loss of our investment in China and in the total loss of your investment.

If relations between the United States and China worsen, our stock price may decrease and we may have difficulty accessing U.S. capital markets.

At various times during recent years, the United States and China have had significant disagreements over political and economic issues. Controversies may arise in the future between these two countries. Any political or trade controversies between the United States and China, whether or not directly related to our business, could adversely affect the market price of our Class A Common Stock and our ability to access U.S. capital markets.

The Chinese economic, political and social conditions as well as government policies could affect our business.

All of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. The Chinese government has implemented various measures from time to time to control the rate of economic growth. Some of these measures benefit the overall economy of China, but may have a negative effect on us. For example, our operating results and financial condition may be adversely affected by:

- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad;
- reduction in tariff or quota protection and other import restrictions; and
- changes in the usage and costs of state-controlled transportation services.

Fluctuations in the value of the Chinese Renminbi relative to foreign currencies could affect our operating results.

Substantially all our revenues and expenses are denominated in the Chinese Renminbi. However, we use the United States dollar for financial reporting purposes. The value of Chinese Renminbi against the United States dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The Chinese government values the exchange rate of the Chinese Renminbi against a number of currencies, rather than just exclusively to the United States dollar. Although the Chinese government has stated its intention to support the value of the Chinese Renminbi, we cannot assure you that the government will not revalue it. As our operations are primarily in China, any significant revaluation of the Chinese Renminbi may materially and adversely affect our cash flows, revenues and financial condition. For example, to the extent that we need to convert United States dollars into Chinese Renminbi for our operations, appreciation of this currency against the United States dollar could have a material adverse effect on our business, financial condition and results of operation. Conversely, if we decide to convert our Chinese Renminbi into United States dollars for other business purposes and the United States dollar appreciates against this currency, the United States dollar equivalent of the Chinese Renminbi would be reduced. To date, we have not engaged in any hedging transactions in connection with our operations.

The discontinuation of the preferential tax treatment currently available to our Chinese subsidiaries might adversely affect our results of operations.

Our Chinese operating subsidiaries are subject to the People's Republic of China Enterprise Income Tax Law Concerning Foreign-Invested Enterprises and Foreign Enterprises. Under this law and its related regulations, our Chinese subsidiaries as foreign-invested enterprises, are generally subject to enterprise income tax at a statutory rate of 33% (30% national income tax plus 3% local income tax) through 2007, and 25% from January 1, 2008 under the tax law described below. However, as manufacturing foreign invested enterprises, our Chinese subsidiaries enjoyed "two-year exemption, three-year 50% reduction" preferential tax treatment from their first profitable year. However, under the new tax law, a new manufacturing foreign-invested enterprise established after March 16, 2007 will not be entitled to such preferential tax treatment anymore.

On March 16, 2007, the National People's Congress of the People's Republic of China passed the People's Republic of China Enterprise Income Tax Law, which was effective as of January 1, 2008. In accordance with the new law, a unified enterprise income tax rate of 25% and unified tax deduction standards will be applied equally to both domestic-invested enterprises and foreign-invested enterprises. Enterprises established prior to March 16, 2007 eligible for preferential tax treatment in accordance with the currently prevailing tax laws and administrative regulations shall, under the regulations of the State Council, gradually be subject to the new tax rate over a five-year transition period starting from the effectiveness date of the new law. For foreign-invested enterprises that currently enjoy "two-year exemption, three-year 50% reduction" preferential tax treatment, the tax holiday are still valid.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

Our Annual Meeting of Shareholders ("Annual Meeting") was held on June 11, 2009. Proposals 1, 2 and 3 were approved, Proposal 4 was not approved. The proposals below are described in detail in the Company's definitive proxy statement dated May 4, 2009, for the Annual Meeting originally scheduled to be held on May 21, 2009. Abstentions and broker non-votes were counted for purposes of determining whether a quorum was present. Shares not present at the Annual Meeting, broker non-votes and abstentions had no effect on the results of any of the proposals.

The results are as follows:

Proposal 1

The individuals listed below received the highest number of affirmative votes of the outstanding shares of the Company's common stock present or represented by proxy and voting at the Annual Meeting, in each case constituting a majority of the total outstanding shares, and were elected at the Annual Meeting to serve a one-year term on the Board of Directors.

<u>NAME</u>	<u>For</u>	<u>Authority Withheld</u>
Heng Jing Lu	33,074,182	1,457,218
Li Xia Wang	33,257,881	1,273,519
Ling Wang	33,207,805	1,323,595
Zhi Yong Jiang	33,338,150	1,193,250
De Lin Yang	33,340,961	1,190,439
Qi Xue	33,338,164	1,193,236
Feng Ju Chen	33,326,101	1,205,299

Proposal 2

Ratification of the appointment of Crowe Horwath LLP to serve as our independent auditors for the fiscal year ended December 25, 2009.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
33,799,299	403,035	329,065

Proposal 3

Amendment of the existing New Dragon Asia Corporation Equity Incentive Plan to allow for the grant of restricted stock and for grants to employs.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
31,787,649	2,577,974	165,777

Proposal 4

To amend our Certificate of Incorporation to effect a reverse split of our Series A Common Stock at a ratio of 1 for 10.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
31,953,211	2,526,289	51,900

Item 5. Other Information.

There have been no material changes to the procedures by which security holders may recommend nominees to the Company's board of directors.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
2.1	Share Exchange Agreement dated as of December 18, 2001 (incorporated herein by reference from our filing on the Definitive Proxy 14/A filed on October 11, 2001).
3.1	Amended Articles of Incorporation (incorporated herewith by reference to Exhibit 3.1 to our Definitive Proxy 14/A filed on October 11, 2001).
3.2	By-laws (incorporated herewith by reference to Exhibit 3.2 to our Definitive Proxy 14/A filed on October 11, 2001).
3.3	Certificate of Designations of Preferences, Rights and Limitations of the Series A 7% Convertible Preferred Stock (incorporated herewith by reference to Exhibit 3.1 of our Form 8-K filed on July 12, 2005).
3.4	Certificate of Designations of Preferences, Rights and Limitations of the Series B 7% Convertible Preferred Stock (incorporated herewith by reference to Exhibit 3.1 of our Form 8-K filed on December 23, 2005).
4.1	Subscription Agreement, dated September 4, 2003 (incorporated herewith by reference to Exhibit 4.1 to our Registration Statement on Form S-3 filed on October 3, 2003).
4.2	Subscription Agreement, dated October 3, 2003 (incorporated herewith by reference to Exhibit 4.2 to our Registration Statement on Form S-3 filed on October 3, 2003).
4.3	Common Stock Purchase Warrants for the September 4, 2003 Private Placement (incorporated herewith by reference to Exhibit 4.3 to our Registration Statement on Form S-3 filed on October 3, 2003).
4.4	Common Stock Purchase Warrants for the October 3, 2003 Private Placement (incorporated herewith by reference to Exhibit 4.4 to our Registration Statement on Form S-3 filed on October 3, 2003).
4.5	Form of Warrant issued to Midsummer Investment Ltd. and Islandia, L.P. (incorporated herewith by reference to Exhibit 4.1 to our Form 8-K filed on July 12, 2005).

- 4.6 Form of Warrant issued to Alliance Financial, LLC, Renaissance Advisors BVI, John F. Steinmetz, TN Capital Equities, Ltd. and Kathleen McDonnell (incorporated herewith by reference to Exhibit 4.2 to our Registration Statement on Form S-3 filed on August 11, 2005).
- 4.7 Securities Purchase Agreement, dated July 11, 2005, relating to the sale of the Series A 7% Convertible Preferred Stock (incorporated herewith by reference to Exhibit 10.1 to our Form 8-K filed on July 12, 2005).
- 4.8 Registration Rights Agreement, dated July 11, 2005, by and among New Dragon Asia Corp. and the investors named therein (incorporated herewith by reference to Exhibit 10.2 to our Form 8-K filed on July 12, 2005).
- 4.9 Form of Warrant issued to Midsummer Investment Ltd. and Islandia, L.P. (incorporated herewith by reference to Exhibit 4.1 to our Form 8-K filed on December 23, 2005).
- 4.10 Form of Warrant issued to Alliance Financial, LLC, Renaissance Advisors, Inc., John F. Steinmetz, TN Capital Equities, Ltd. and Kathleen McDonnell (incorporated herewith by reference to Exhibit 4.2 to our Registration Statement on Form S-3 filed on January 20, 2006).
- 4.11 Securities Purchase Agreement, dated December 22, 2005, relating to the sale of the Series B 7% Convertible Preferred Stock (incorporated herewith by reference to Exhibit 10.1 to our Form 8-K filed on December 23, 2005).
- 4.12 Registration Rights Agreement, dated December 22, 2005, by and among New Dragon Asia Corp. and the investors named therein (incorporated herewith by reference to Exhibit 10.2 to our Form 8-K filed on December 23, 2005).
- 4.13 Registration Rights Agreement, dated December 22, 2005, by and among New Dragon Asia Corp. and New Dragon Food Ltd. (incorporated herewith by reference to Exhibit 4.5 to our Registration Statement on Form S-3 filed on January 20, 2006).
- 10.1 Sino-Foreign Joint Venture Contract for the New Dragon Asia Flour (Yantai) Company Limited, dated June 1, 1999 (incorporated herewith by reference to Exhibit 10.1 to our Registration Statement on Form S-3 filed on October 3, 2003).
- 10.2 Subcontracting Agreement, for the New Dragon Asia Flour (Yantai) Company Limited, dated June 26, 1999 (incorporated herewith by reference to Exhibit 10.2 to our Registration Statement on Form S-3 filed on October 3, 2003).
- 10.3 Sino-Foreign Joint Venture Contract for the New Dragon Asia Food (Yantai) Company Limited, dated November 28, 1998 (incorporated herewith by reference to Exhibit 10.3 to our Registration Statement on Form S-3 filed on October 3, 2003).
- 10.4 Subcontracting Agreement, for the New Dragon Asia Food (Yantai) Company Limited, dated December 26, 1998 (incorporated herewith by reference to Exhibit 10.4 to our Registration Statement on Form S-3 filed on October 3, 2003).
- 10.5 Sino-Foreign Joint Venture Contract for the New Dragon Asia Food (Dalian) Company Limited, dated November 28, 1998 (incorporated herewith by reference to Exhibit 10.5 to our Registration Statement on Form S-3 filed on October 3, 2003).
- 10.6 Subcontracting Agreement, for the New Dragon Asia Food (Dalian) Company Limited, dated December 26, 1998 (incorporated herewith by reference to Exhibit 10.6 to our Registration Statement on Form S-3 filed on October 3, 2003).
- 10.7 Sino-Foreign Joint Venture Contract for the Sanhe New Dragon Asia Food Company Limited, dated November 28, 1998 (incorporated herewith by reference to Exhibit 10.7 to our Registration Statement on Form S-3 filed on October 3, 2003).
- 10.8 Subcontracting Agreement, for the Sanhe New Dragon Asia Food Company Limited, dated December 26, 1998 (incorporated herewith by reference to Exhibit 10.8 to our Registration Statement on Form S-3 filed on October 3, 2003).

- 10.9 Employment Agreement between New Dragon Asia Corp. and Peter Mak, dated November 2, 2004 (incorporated herewith by reference to Exhibit 10.9 to our Form 8-K filed on June 29, 2005).
- 10.10 Employment Supplement between New Dragon Asia Corp. and Peter Mak, dated June 22, 2005 (incorporated herewith by reference to Exhibit 10.9 to our Form 8-K filed on June 29, 2005).
- 10.11 Supplementary Agreement to Employment Agreement between New Dragon Asia Corp. and Peter Mak, dated January 20, 2006 (incorporated herewith by reference to Exhibit 10.10 to our Form 8-K filed on January 24, 2006).
- 10.12 Equity Incentive Plan (incorporated herewith by reference to Exhibit B to our Definitive Information Statement on Schedule 14C filed on March 14, 2006).
- 10.13 Stock Option Agreement between New Dragon Asia Corp. and Peter Mak, dated December 13, 2006 (incorporated herewith by reference to Exhibit 10.1 to our Form 8-K filed on December 15, 2006).
- 10.14 Settlement Agreement and General Release between New Dragon Asia Corp and Berry-Shino Securities Inc., dated August 15, 2007 (incorporated by reference to Exhibit 10.1 to our Form 8-K filed on August 15, 2007).
- 10.15 Employment Agreement dated April 1, 2009 between New Dragon Asia Corp. and Ling Wang (incorporated herewith by reference to Exhibit 10.1 to our Registration Statement on Form S-8 filed on May 8, 2009).
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification of the Principal Financial Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002), filed herewith.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002), filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEW DRAGON ASIA CORP.

Dated: August 10, 2009

By: /s/ Li Xia Wang
Name: Li Xia Wang (Principal Executive Officer)
Title: Chief Executive Officer

Dated: August 10, 2009

By: /s/ Ling Wang
Name: Ling Wang
Title: Chief Financial Officer (Principal Financial and Accounting Officer)

CERTIFICATION

I, Li Xia WANG, certify that:

1. I have reviewed this quarterly report on Form 10-Q of New Dragon Asia Corp.:
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 10, 2009

By: /s/ Li Xia WANG
Li Xia WANG (Principal Executive Officer)
Chief Executive Officer

CERTIFICATION

I, Ling Wang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of New Dragon Asia Corp.:
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 10, 2009

By: /s/ Ling Wang
Ling Wang
Chief Financial Officer (Principal Financial and Accounting
Officer)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of New Dragon Asia Corp. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 25, 2009 of the Company fully complies, in all material respects, with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 10, 2009

By: /s/ Li Xia WANG
Li Xia WANG (Principal Executive Officer)
Chief Executive Officer

Dated: August 10, 2009

By: /s/ Ling Wang
Ling Wang
Chief Financial Officer (Principal Financial and Accounting Officer)
