



January 19, 2006

New Dragon Asia Corp. (AMEX:NWD)

Rating: Buy

Price Target = \$2.00

Price: \$1.57 (01/18/06 close)

52 wk range: \$0.72-\$3.14

Market Cap: \$74 million

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Please see **Important Disclosures** and Risk Factors beginning on page 11 of this report.

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Initiating Coverage with Buy Rating and \$2.00 Price Target

We are initiating coverage of New Dragon Asia Corp. with a Buy rating and \$2 price target. New Dragon Asia mills, sells, and distributes flour related products and produces and sells instant noodles in China. The company has two business segments: Flour Products and Instant Noodles.

8 Reasons to Buy New Dragon Asia:

1. **Revenue and Profit Growth.** Sales of both flour products and instant noodles have been growing at the Company. Revenues for the company increased by 12% year/year to \$28.9 mil and net income increased by 73% year/year to \$3.6 mil during the first 9 months of 2005. We expect this trend to continue as the company benefits from growth in these areas.
2. **Smart Acquisition Strategy.** The company's acquisition strategy is to identify and purchase state-owned enterprises (SOEs) that produce products that complement the company's existing operations. In 2005 NWD purchased a soybean plant and a distribution center to increase revenue and support increasing exports.
3. **PRC Demographics.** The instant noodle market in China represents 26 bil servings annually and is expected to grow to 33.5 bil servings by 2007. China consumes an estimated 22 mil metric tons of soybeans, representing approx. 16% of the global market.
4. **Favorable Tax Environment.** The company receives a local tax refund for exporting product and also benefits from a reduced corporate income tax rate since it is considered a Foreign Investment Enterprise. As a result of these programs, the effective tax rate for NWD's earnings is quite low – the company's effective tax rate ranged between 10.3% and 31.6% with an average rate of 20.3% over the past four quarters.
5. **Strong Balance Sheet.** Following the completion of two private placements in 2005, the company has ample cash to execute its acquisition strategy.
6. **Good Liquidity for a Microcap Stock.** The average daily trading volume over the past six months is approx. 500,000 shares.
7. **Senior Management Team.** Management of the company has considerable experience and expertise in the flour and grain industry. The experience of the Chairman and CEO in the grain industry combined with the financial expertise of the CFO allows the company to successfully carry out its acquisition strategy.
8. **Underfollowed and Undervalued by Market.** According to Bloomberg, we are the only analyst to cover NWD at this time. Our \$2.00 price target is based on P/E multiple of 16X FY2006 earnings of \$0.12 per share.

Business Overview

New Dragon Asia has two business lines: flour products and instant noodles. The company mills and sells various types of wheat flour for use in bread, dumplings, noodles, and confectionary products. Flour products are marketed under the Long Feng name brand and are sold throughout China at wholesale and retail levels. Instant noodles are sold as packet noodles for preparation at home and as snacks and cup noodles for on the go convenience. The company has an annual aggregate production capacity of 195,000 tons of flour products and over 1.1 bil packets of instant noodles. In FY04, flour products comprised 67% of revenues and instant noodles comprised 33% of revenues. In 2005, NWD purchased a soybean powder factory with an annual production capacity of 3,000 tons of soybean protein powder and 1,500 tons of soybean milk powder. The company headquarters are located in Shandong Province and additional corporate offices are located in Shenzhen. The company has approximately 2,000 employees.

Raw Materials/Products

Raw materials used by the company include wheat, soybeans, eggs, paper products such as cardboard, films, and plastics. High quality wheat is sourced by milling operations. Flour is extracted from the wheat during the milling process. Noodles consist of mostly flour and water. The flour, water and other ingredients are mixed and then rolled into the shape of a noodle. The mixture is then processed using dryers before it is stabilized at room temperature. Noodles are then steamed and cooked in deep fryers, cooled, and mixed with seasonings and freeze dried additives such as chicken, vegetables, or beef. The freeze dried additives are prepared from raw ingredients in a separate building within the noodle production complex. Finished instant noodles are then packed, palletized, and shipped.

The company also produces soybean protein powder and soybean milk powder. Soybean protein powder is made from defatted soy flour that is compressed and dehydrated. Soy protein is widely used as a meat substitute and high protein natural food additive. Soybean milk powder is used in prepared soymilk products in dairy case or stable shelf forms. Soybean milk powder can be packaged on its own or with other dry ingredients such as flavors. Finished products include soymilk, soy coffee creamer, soy ice cream, and soy infant formula.

Manufacturing and Distribution

All of the company's manufacturing plants are ISO9002 and ISO 9001 2000 certified and have strict quality assurance/quality control systems. The company uses state of the art manufacturing equipment imported from Switzerland, Japan, and Korea.

NWD owns and/or operates 6 manufacturing plants: Yantai Flour Mill, Penglai Flour Mill, Yantai Noodle Factory, Sanhe Noodle Factory, Longyuan Plant, and Soybean Plant. Operations are vertically integrated – wheat flour produced at the Yantai and Penglai Flour Mills is used to make instant noodles at the Yantai and Sanhe Noodle Factories and product packaging is then performed at the Longyuan Plant. The company has 29 noodle production lines, 2 flour milling lines, 2 soybean protein powder lines, and 2 soybean milk powder production lines.

Plant	Size	Location	Employees	Distribution
Yantai Noodle	258,000 ft ²	Longkou, Shandong	340	Northeast and Northern China
Sanhe Noodle	674,500 ft ²	Beijing	720	Hebei, Tianjin, Inner Mongolia
Yantai Flour	258,000 ft ²	Longkou, Shandong	340	North and Northeast China
Penglai Flour	179,000 ft ²	Penglai, Shandong	200	Shandong, Jinlin, Liaoning, Heilongjiang
Longyuan Packaging	376,736 ft ²	Longkou, Shandong	300	
Shandong Soybean	215,278 ft ²	Longkou, Shandong	150	Shanghai and overseas markets
Xinlongya Distribution	5,382 ft ²	Shandong	10	

Sales and Marketing

The instant noodle market in China represents 26 bil servings annually and is expected to grow to 33.5 bil servings by 2007. China consumes an estimated 22 mil metric tons of soybeans, representing approx. 16% of the global market.

NWD has over 200 points of distribution in over 27 provinces of China. The company has 16 regional offices. The company focuses on maintaining strong, long-term relationships with its distributors partly through annual sales meetings and regular distributor conferences.

Both flour products and noodles are sold in China; only noodles are exported. Primary customers are small retail stores located in rural areas throughout China. Approximately 1 bil people live in rural areas of China and 300 mil people live in urban areas along the eastern coast. The rural market has been expanding as the disposable income of people in rural areas has increased. In the past, rural residents would make noodles themselves by hand with flour and water. As the economy in China has developed and the standard of living has increased, consumers are buying more convenience foods in order to save time. Products are also sold to supermarkets in urban areas. NWD exports instant noodles to Korea, Australia, Malaysia, and Indonesia. Exports comprised 5% of instant noodle sales in FY04 and 8% of instant noodle sales through Q305. NWD is awaiting final Hazard Analysis and Critical Control Point (HACCP) certification so that it may export instant noodles to European companies. HACCP is a food safety program originally developed by astronauts to prevent hazards that could cause food borne illness. The system is required in the US by the FDA for the seafood and juice industries.

NWD has also benefited from large orders received from large western corporations with operations in China including KFC and Coca-Cola as well as Hong Kong based supermarket chain PARKnSHOP. KFC Corp. and its intermediary suppliers placed a \$700K order for flour in December 2003. A second order for \$1.1 mil was placed in June 2004. NWD received an order from Coca-Cola Shanghai for 13.2 tons of soybean powder on July 28, 2005. PARKnSHOP uses New Dragon Asia as its exclusive flour vendor, ordering approximately 1,000 tons of flour worth \$500K in 2004.

Competition

Competition is driven by many factors including brand name recognition, popularity of products, pricing, marketing, and shelf space. Both the flour products and instant noodle markets are very competitive. Within the flour products business line, NWD competes mainly with Shandong Guang Rao Bin Qiu Flour and Hebei Wu De Li Flour in northern China and Shenzhen Nanshun Flour in southern China. In the instant noodle business, NWD competes primarily with Master Kang (manufactured by Tingyi Holdings Corp.) and President (manufactured by Uni-President Group), which are both based in Taiwan and compete in urban markets. Many smaller noodle manufacturers also sell instant noodles. The Long Feng name brand has the PRC Famous Brand Product designation. Products that have a Famous Brand or Famous Trademark designation in China typically have a higher value than others. In July 2004, New Dragon Asia's flour products received Grade A certification by the China Green Food Development Center, an organization with the authority to issue the green and organic food label to producers. The green food label in China is similar to the organic food program in the US.

Tax Benefit

The company receives a local tax refund for exporting product. NWD is considered one of the largest taxpayers at the municipal level and as such receives a large portion of the Value Added Tax Refund. The company also benefits from a reduced corporate income tax rate since it is considered a Foreign Investment Enterprise. As a result of these programs, the effective tax rate

for NWD's earnings is quite low – the company's effective tax rate ranged between 10.3% and 31.6% with an average rate of 20.3% over the past four quarters.

Company History

The business was established in 1952 as a grain and oil processing company called Long Feng Foods in Shandong Province of China. In 1992, the company began to manufacture instant noodles as convenience foods became more popular.

In 1998, Long Feng Foods, New World Group, and Hong Kong Maxim Group formed a joint venture called New Dragon Asia Food Limited. The joint venture acquired the controlling interest in seven manufacturing facilities of Long Feng Foods. The idea behind the joint venture was to combine the manufacturing and distribution capabilities of Long Feng Foods, the financial strength of New World Group, and the food industry management expertise of Hong Kong Maxim Group.

On December 13, 2001, New Dragon Asia completed a reverse merger with BioAqua Systems, Inc., a Florida corporation that was listed on the American Stock Exchange. New Dragon Asia then bought 100% interest in four British Virgin Island companies that were owned by New Dragon Asia Food Limited in exchange for 37,963,262 shares of NWD. Each of the four BVI companies holds an interest in a separate joint venture of the People's Republic of China.

In March 2004, NWD established the Longyuan Plant in conjunction with a third party to support the growth of its flour and instant noodle businesses. The Longyuan Plant manufactures and sells packaging material. NWD owns 55% of the plant.

On May 25, 2004, the company agreed to pay \$1.3 mil for the property, machinery, equipment, and land use rights for a flour mill in Penglai. This purchase expanded the production capacity of the company by 30%.

On December 25, 2004, NWD sold its equity interest in the Dalian Plant. The company had ceased operations there in December 2003 due to extensive upgrades required to meet PRC environmental requirements and available production capacity at the Yantai plants.

On July 12, 2005, NWD announced the completion of a \$6 mil private placement of 7% Series A preferred stock immediately convertible to 6,315,789 shares at conversion price of \$0.95 per share and six year warrants to purchase 3,157,895 shares at \$1.04 per share. Midsummer Investment was the lead institutional investor in the deal.

On July 28, 2005, the company acquired a plant and machinery for the production of soybean derived products from a Shandong state owned enterprise. Production at the facility commenced September 1, 2005.

On December 12, 2005, NWD acquires Shandong Xinlongya Distribution Co. Ltd., a state-owned enterprise that was operating as NWD's sole export distributor. Terms of the deal were not disclosed. Ten employees work at the distribution center.

On December 22, 2005, NWD announced the completion of a \$9.5 mil private placement of 7% Series B convertible preferred stock immediately convertible to 5,937,500 shares at conversion price of \$1.60 per share and six year warrants to purchase 2,968,750 shares at \$1.76 per share. Midsummer Investment was the lead institutional investor in the deal.

The company recently added an additional production line for soybean milk powder, expanding the annual production capacity to 6,500 tons from 4,500 tons at the soybean plant. The new production line is operational at this time.

Company Strategy

The company's strategy is to expand its export sales, strengthen its relationships with distributors, improve the quality of existing products, diversify by adding higher value added products, and continue to build strategic joint venture relationships with multinational food groups to capitalize on the company's large distribution network.

NWD plans to identify and purchase state-owned enterprises (SOEs) that complement the company's existing operations. Additional products with strong name brand recognition may be purchased to increase market share in China. The Chairman of the company, Mr. Lu, was formerly employed at a government agency. He has extensive knowledge of which plants and facilities are attractive. In recent years, China has been moving to privatize many of its state-owned enterprises in a short period of time. Small and medium size SOEs are not large enough to warrant an initial public offering. As such, PRC often sells facilities and land use rights for less than the carrying book value of the assets. In many instances, the SOEs are older and most assets have been fully amortized, providing an attractive entry point for prospective buyers.

Experienced Management Team

Mr. Heng Jing Lu, Chairman of the Company, graduated from The Shandong Institute of Economics in accounting and is a PRC qualified accountant. Before joining NWD on December 15, 2003, he had been working in the oil and grain industry for over 30 years. Prior to joining the company, he was the director of Oil and Grain Bureau of Longkou, Shandong PRC where he had worked since 1975. He has extensive experience in the management of agricultural and food related enterprises and strategic planning. He is primarily responsible for business development and overall company management.

Ms. Li Xia Wang, current director and Chief Executive Officer of the Company, graduated from The Shandong Institute of Economics in accounting and is a PRC qualified accountant. She joined the Longkou Oil & Grain Group Company in 1980 where she has remained, her last position being Deputy General Manager. She has over 20 years extensive experience in the field of finance and accounting. She joined NWD as a director of the Company on December 15, 2003.

Ms. Ling Wang, current director and Vice President of the Company, graduated from Shandong Television Broadcast University in economics management. She has been working with the subsidiary of the Company since 1981 and her main responsibilities involve operation control and internal audits. Ms. Wang owns 70% of NWD through New Dragon Asia Food Ltd. She has assigned her voting rights to the Chairman of the company, Mr. Lu.

Mr. Peter Mak, joined the NWD as Chief Financial Officer in November 2004. He graduated from Hong Kong Polytechnic University. He is a fellow of the Chartered Association of Certified Accountants in the U.K. and a fellow of the Hong Kong Certified Public Accountants. He is the founder and managing director of VENFUND Investment in Hong Kong and VENFUND VC Investment Management Ltd. in Shenzhen. Previously, he was the managing partner of Arthur Andersen Southern China and also a partner of Arthur Andersen Worldwide.

Interestingly, no executives were paid compensation during 2003-2004 because the senior management team was comprised of state employees. They did receive compensation in 2005

and will continue to be paid moving forward. Mr. Mak has an employment agreement with the company to receive \$180K per year in salary plus 400,000 stock options with an exercise price of \$4 per share.

Business Risks Related to Operating in PRC

Since New Dragon Asia is a Florida corporation, it is considered a Foreign Invested Enterprise by the Chinese government. The Foreign Invested Enterprise laws provide protection to the company from government interference, guarantee that the company's Corporate Articles and Contracts will be upheld, and impose corporate governance standards on the company. NWD has audits performed by both US and Chinese accounting firms and a Chinese law firm. In the event of a business dispute, the company is entitled to the same status as Chinese companies. The Arbitration Institute of Stockholm Chamber of Commerce resolves all Foreign Invested Enterprise disputes. Chinese minority partners are not entitled to preferential treatment. While this framework is in place to protect foreign businesses operating in the PRC, extensive precedents and an established history of enforcement does not exist.

In addition, the Chinese government may take further steps to limit economic growth in PRC or reverse policy decisions designed to decentralize businesses. Such moves may negatively impact the financial performance of the company. NWD is also subject to foreign exchange risk associated with the value of the Chinese renminbi versus the US dollar. The company has no hedges in place to mitigate such risks.

Private land ownership is not allowed in PRC. The right to use land is typically sold for a designated term. NWD has land use rights for terms expiring between 2025 and 2047.

Financial Details

Revenues for the company increased by 12% year/year to \$28.9 mil and net income increased by 73% year/year to \$3.6 mil during the first 9 months of 2005. Revenues increased by 18% year/year to \$11.6 mil and net income increased by 36% year/year to \$1.6 mil during the most recent quarter ended September 2005. During the first nine months of 2005, gross margin decreased to 17% from 19% due to higher costs for packaging materials, but this was offset by a 48% decrease in selling and distribution costs and a 26% decrease in general and administration costs. Value Added Tax refunds for the September quarter were \$928K and net margin increased to 12% from 8%. The company expects to continue to benefit from VAT tax refunds. A loss of such refunds would negatively impact the financial performance of the company.

Seasonality

Typically Q4 is the best quarter for NWD since consumers prepare in December for the Chinese New Year celebrations. Q1 is typically the lowest revenue quarter and business improves as the year progresses.

Growth Expectations

Growth drivers for the company include revenue growth and margin improvement. We anticipate that the company's ability to generate additional revenue and improve margins depends on its ability to: identify suitable acquisition targets and complete deals at a reasonable price; expand its regional marketing and distributor relationships; increase export sales; enter into additional partnership agreements with multinational corporations; and further strengthen its name brand.

Recent Guidance

The company expects 15% organic growth and an additional 15% growth from acquisitions during 2006. NWD expects revenue between \$60 and \$65 mil and net income between \$6 and

\$7.5 mil. Gross margins are approximately 18% for flour products, 5-6% for instant noodles, and over 30% for soybean powder. The overall blended gross margin rate is expected to be approx. 18%. The soybean plant is expected to contribute \$5 mil in revenue in 2005 and \$8 mil in 2006. The recent acquisition of the Shandong Xinlongya Distribution Co. is expected to add \$400K to the bottom line within 12 months. NWD expects export sales to increase to 12% in 2006, up from 8% in 2005.

Underfollowed and Undervalued by Market. According to Bloomberg, we are the only analyst to cover NWD at this time. We believe NWD shares are undervalued at current prices given the company's potential for revenue and earnings growth over the next 12 months. Our financial model is included at the end of this report. Our \$2.00 price target is based on P/E multiple of 16X FY2006 earnings of \$0.12 per share.

Conclusion. Based on the company's prospects for revenue and profit growth in the next year, we are initiating coverage with a Buy rating and \$2.00 price target.

New Dragon Asia Corp. Projected Income Statement

New Dragon Asia Corp. Income Statement (amounts in 000's \$, except shares)																
	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	2003	2004	2005	2006
Revenue	\$7,398	\$8,547	\$9,886	\$13,390	\$8,282	\$8,993	\$11,645	\$16,738	\$10,435	\$11,871	\$15,604	\$22,763	\$30,773	\$39,221	\$45,658	\$60,673
q/q growth rate	13.0%	56.0%	20.6%	26.9%	11.9%	5.2%	17.8%	25.0%	26.0%	32.0%	34.0%	36.0%				
Cost of Goods Sold	\$6,065	\$6,986	\$7,958	\$10,878	\$6,790	\$7,584	\$9,488	\$13,557	\$8,453	\$9,675	\$12,639	\$18,438	\$24,852	\$31,887	\$37,419	\$49,205
Gross Profit	\$1,333	\$1,561	\$1,928	\$2,512	\$1,492	\$1,409	\$2,157	\$3,180	\$1,983	\$2,196	\$2,965	\$4,325	\$5,921	\$7,334	\$8,238	\$11,469
Selling and distribution	\$389	\$235	\$198	\$356	\$121	\$561	\$149	\$251	\$167	\$297	\$234	\$569	\$1,330	\$1,178	\$1,082	\$1,267
General and administration	\$661	\$464	\$686	(\$200)	\$573	\$405	\$360	\$837	\$522	\$594	\$780	\$1,138	\$2,398	\$1,611	\$2,175	\$3,034
	8.9%	5.4%	6.9%	-1.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%				
Operating Income	\$283	\$862	\$1,044	\$2,356	\$798	\$443	\$1,648	\$2,092	\$1,294	\$1,306	\$1,951	\$2,618	\$2,193	\$4,545	\$4,981	\$7,168
	3.8%	10.1%	10.6%	17.6%	9.6%	4.9%	14.2%	12.5%	12.4%	11.0%	12.5%	11.5%				
Interest expense	(\$39)	(\$33)	(\$1)	\$1	\$0	(\$1)	(\$292)	(\$300)	(\$300)	(\$300)	(\$300)	(\$300)	(\$249)	(\$72)	(\$593)	(\$1,200)
Interest income	\$12	\$1	\$0	(\$10)	\$0	\$0	\$4	\$0	\$0	\$0	\$0	\$0	\$4	\$3	\$4	\$0
Other income (expense)	\$328	\$113	\$492	\$491	\$2	\$796	(\$207)	\$0	\$0	\$0	\$0	\$0	\$1,226	\$1,424	\$591	\$0
VAT refund	\$0	\$0	\$0	\$0	\$0	\$0	\$928	\$1,000	\$650	\$850	\$1,000	\$1,100	\$0	\$0	\$1,928	\$3,600
Income Before Taxes	\$584	\$943	\$1,535	\$2,838	\$800	\$1,238	\$2,081	\$2,792	\$1,644	\$1,856	\$2,651	\$3,418	\$3,174	\$5,900	\$6,911	\$9,568
Taxes	(\$246)	(\$412)	(\$346)	(\$292)	(\$253)	(\$258)	(\$381)	(\$558)	(\$411)	(\$464)	(\$663)	(\$854)	(\$447)	(\$1,296)	(\$1,450)	(\$2,392)
tax rate	42.1%	43.7%	22.5%	10.3%	31.6%	20.8%	18.3%	20.0%	25.0%	25.0%	25.0%	25.0%				
Minority interest	\$0	\$8	\$3	\$30	\$41	(\$8)	(\$73)	\$0	\$0	\$0	\$0	\$0	\$0	\$41	(\$40)	\$0
Net Income	\$338	\$539	\$1,192	\$2,576	\$588	\$972	\$1,627	\$2,234	\$1,233	\$1,392	\$1,988	\$2,563	\$2,727	\$4,645	\$5,421	\$7,176
Basic EPS	\$0.01	\$0.01	\$0.03	\$0.06	\$0.01	\$0.02	\$0.04	\$0.05	\$0.03	\$0.03	\$0.04	\$0.05	\$0.06	\$0.10	\$0.12	\$0.15
Diluted EPS	\$0.01	\$0.01	\$0.03	\$0.06	\$0.01	\$0.02	\$0.03	\$0.04	\$0.02	\$0.02	\$0.03	\$0.04	\$0.06	\$0.10	\$0.11	\$0.12
Basic Shares Outstanding	45,061,000	45,061,000	45,061,000	45,061,000	45,061,000	45,061,000	45,768,000	46,225,680	46,687,937	47,154,816	47,626,364	48,102,628	42,108,000	45,061,000	45,528,920	47,392,936
Diluted Shares Outstanding	45,061,000	45,061,000	45,061,000	45,061,000	45,061,000	45,061,000	50,333,000	55,333,000	55,886,330	57,004,057	58,144,138	59,307,020	42,108,000	45,061,000	48,947,000	57,585,386
EBITDA	\$593	\$1,166	\$1,363	\$2,610	\$1,095	\$728	\$2,179	\$2,642	\$1,872	\$1,867	\$2,495	\$3,146	\$3,618	\$5,732	\$6,644	\$9,380

Source: Company SEC filings and M.S. Howells & Co. estimates

New Dragon Asia Corp. Projected Balance Sheet

New Dragon Asia Corp.													
Balance Sheet													
(amounts in 000's \$, except per share data)													
	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
Cash	\$1,783	\$603	\$442	\$182	\$219	\$267	\$1,053	\$4,637	\$13,745	\$16,513	\$15,936	\$18,356	\$21,473
Accounts receivable	\$6,936	\$5,884	\$6,226	\$6,202	\$6,414	\$6,197	\$6,232	\$6,596	\$7,058	\$7,269	\$7,488	\$7,712	\$7,944
Inventories	\$2,763	\$1,870	\$2,869	\$2,980	\$3,990	\$4,635	\$5,478	\$5,611	\$6,004	\$6,484	\$7,003	\$7,563	\$8,168
Prepaid expenses and other receivables	\$1,282	\$2,939	\$1,612	\$2,214	\$2,520	\$4,591	\$3,527	\$5,838	\$6,072	\$6,254	\$6,441	\$6,635	\$6,834
Due from related companies	\$124	\$120	\$1,095	\$1,305	\$1,183	\$854	\$822	\$842	\$940	\$940	\$940	\$940	\$940
Assets held for sale	\$0	\$2,340	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total current assets	\$12,888	\$13,756	\$12,244	\$12,883	\$14,326	\$16,544	\$17,112	\$23,524	\$33,818	\$37,460	\$37,808	\$41,205	\$45,358
Property, machinery and equipment, net	\$17,471	\$15,234	\$16,879	\$16,637	\$16,098	\$15,837	\$15,575	\$18,584	\$19,284	\$18,705	\$18,144	\$17,600	\$17,072
Land use rights	\$3,998	\$3,678	\$3,878	\$3,850	\$3,822	\$3,794	\$3,766	\$3,847	\$3,770	\$3,695	\$3,621	\$3,548	\$3,477
Total assets	\$34,357	\$32,668	\$33,001	\$33,370	\$34,246	\$36,175	\$36,453	\$45,955	\$56,872	\$59,860	\$59,573	\$62,354	\$65,908
Short term borrowings	\$2,845	\$2,616	\$1,411	\$327	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accounts payable	\$4,565	\$3,624	\$4,195	\$4,150	\$2,696	\$3,406	\$2,557	\$2,754	\$2,823	\$2,908	\$2,995	\$3,085	\$3,177
Other payables and accruals	\$1,234	\$1,128	\$2,384	\$2,409	\$1,898	\$2,178	\$2,368	\$1,979	\$1,976	\$2,035	\$2,097	\$2,159	\$2,224
Taxes payable	\$921	\$789	\$1,303	\$1,571	\$1,491	\$2,028	\$1,656	\$1,679	\$1,856	\$2,267	\$464	\$1,127	\$1,981
Due to related companies	\$1,202	\$950	\$519	\$477	\$831	\$728	\$152	\$163	\$150	\$150	\$150	\$150	\$150
Net liabilities held for sale	\$0	\$646	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total current liabilities	\$10,767	\$9,753	\$9,812	\$8,934	\$6,916	\$8,340	\$6,733	\$6,575	\$6,806	\$7,361	\$5,705	\$6,521	\$7,533
Due to an immediate parent company	\$196	\$8	\$3	\$47	\$303	\$306	\$1,187	\$248	\$250	\$250	\$250	\$250	\$250
Due to joint venture partners	\$1,204	\$379	\$3	\$17	\$110	\$65	\$88	\$123	\$110	\$99	\$89	\$80	\$72
Mandatory redeemable conv preferred	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$3,443	\$3,443	\$3,443	\$3,443	\$3,443	\$3,443
Total liabilities	\$12,167	\$10,140	\$9,818	\$8,998	\$7,329	\$8,711	\$8,008	\$10,389	\$10,609	\$11,153	\$9,488	\$10,294	\$11,298
Minority Interest	\$0	\$0	\$116	\$113	\$82	\$41	\$50	\$124	\$75	\$50	\$50	\$50	\$50
Common stock	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$5	\$5	\$5	\$5	\$5	\$5
Additional paid in capital	\$9,909	\$9,909	\$9,909	\$9,909	\$9,909	\$9,909	\$9,909	\$14,156	\$14,439	\$14,728	\$15,022	\$15,323	\$15,629
Preferred stock	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$9,500	\$9,500	\$9,500	\$9,500	\$9,500
Retained earnings	\$12,277	\$12,615	\$13,154	\$14,346	\$16,922	\$17,510	\$18,482	\$20,509	\$22,743	\$23,976	\$25,368	\$27,355	\$29,919
Accumulated other income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$772	\$772	\$772	\$772	\$772	\$772
Total stockholder's equity	\$22,190	\$22,528	\$23,067	\$24,259	\$26,835	\$27,423	\$28,395	\$35,442	\$47,459	\$48,981	\$50,667	\$52,955	\$55,825
Total Liabilities and Stockholder's Equity	\$34,357	\$32,668	\$33,001	\$33,370	\$34,246	\$36,175	\$36,453	\$45,955	\$58,143	\$60,183	\$60,205	\$63,299	\$67,173
Balance Sheet Check:	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,270	\$323	\$632	\$946	\$1,265

Source: Company SEC filings and M.S. Howells & Co. estimates

New Dragon Asia Corp. Projected Cash Flow Statement

New Dragon Asia Corp. Cash Flow Statement (amounts in 000's \$)																
	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
Net income	\$316	(\$273)	\$513	\$2,726	\$338	\$877	\$2,069	\$4,645	\$588	\$1,560	\$3,187	\$5,421	\$1,233	\$2,625	\$4,613	\$7,176
Depreciation and Amortization	\$350	\$712	\$1,066	\$1,425	\$310	\$614	\$933	\$1,187	\$297	\$582	\$1,113	\$1,663	\$579	\$1,140	\$1,684	\$2,212
Gain on disposal of machinery and equipment	\$0	\$37	\$23	(\$346)	(\$16)	(\$15)	(\$15)	\$199	\$0	\$3	(\$21)	(\$21)	\$0	\$0	\$0	\$0
Provisions for bad debts	\$56	\$92	\$78	\$578	\$396	(\$57)	\$256	(\$218)	\$86	\$49	\$5	\$50	\$50	\$100	\$150	\$200
Gain on disposal of PRC subsidiary	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$162)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Minority Interests	\$0	\$0	\$0	\$0	\$0	(\$8)	(\$11)	(\$41)	(\$41)	(\$32)	\$42	\$91	\$25	\$25	\$25	\$25
Stock based compensation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$105	\$0	\$0	\$0	\$0	\$0
Accounts receivable	(\$461)	\$505	(\$1,158)	(\$186)	\$652	\$767	\$478	\$735	\$131	\$133	(\$187)	(\$580)	(\$480)	(\$999)	(\$1,559)	(\$2,164)
Inventory	\$353	\$517	\$2,074	\$2,439	\$803	(\$106)	(\$217)	(\$1,313)	(\$645)	(\$1,488)	(\$1,621)	(\$2,083)	(\$212)	(\$430)	(\$654)	(\$886)
Prepaid expenses and other receivables	\$300	\$237	\$312	(\$216)	(\$1,661)	(\$330)	(\$932)	(\$1,242)	(\$2,071)	(\$1,007)	(\$3,269)	(\$3,603)	(\$182)	(\$370)	(\$563)	(\$762)
Accounts payable	\$382	(\$55)	(\$120)	(\$163)	(\$654)	(\$370)	(\$415)	(\$1,583)	\$710	(\$139)	\$58	\$127	\$85	\$172	\$262	\$354
Other payables and accruals	(\$412)	(\$255)	\$574	(\$48)	\$21	\$1,150	\$1,175	\$920	\$280	\$470	\$81	\$78	\$59	\$120	\$183	\$248
Taxes payable	(\$195)	(\$720)	\$33	\$32	(\$105)	\$382	\$650	\$573	\$537	\$165	\$188	\$365	\$411	(\$1,392)	(\$730)	\$125
Amounts due to related companies	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$679)	(\$668)	(\$681)	\$0	\$0	\$0	\$0
Amounts due from related companies	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$329	\$361	\$341	\$439	\$0	\$0	\$0	\$0
Net cash provided by operating activity	\$689	\$797	\$3,395	\$6,241	\$84	\$2,904	\$3,971	\$3,700	\$201	(\$22)	(\$646)	\$1,367	\$1,567	\$991	\$3,410	\$6,528
Due from related companies	\$196	\$203	\$0	\$2,357	\$4	(\$973)	\$0	(\$706)	(\$103)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Proceeds from sale of property, machinery and equipment	\$23	\$8	\$11	\$994	\$22	\$2,266	\$1,971	\$126	\$0	\$2	\$33	\$0	\$0	\$0	\$0	\$0
Purchases of property, machinery and equipment	(\$38)	(\$30)	(\$78)	(\$92)	(\$1)	(\$2,151)	(\$1,977)	(\$2,207)	(\$8)	(\$8)	(\$3,330)	(\$4,030)	\$0	\$0	\$0	\$0
Proceeds from sale of land use rights	\$0	\$0	\$0	\$0	\$0	\$295	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Purchases of land use rights	\$0	\$0	\$0	\$0	\$0	\$0	(\$225)	\$0	\$0	\$0	(\$110)	(\$110)	\$0	\$0	\$0	\$0
Due to related companies	\$31	\$0	\$0	\$400	(\$252)	\$0	\$0	(\$371)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net cash used in investing activities	\$212	\$181	(\$67)	\$3,659	(\$227)	(\$858)	\$64	(\$3,158)	(\$111)	(\$6)	(\$3,407)	(\$4,140)	\$0	\$0	\$0	\$0
Proceeds from short term borrowings	\$723	\$1,807	\$2,771	\$4,325	\$602	\$602	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Payments on short term borrowings	(\$12)	(\$1,096)	(\$2,060)	(\$5,094)	(\$626)	(\$2,036)	\$603	(\$2,676)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Proceeds from issuance of common or preferred stock	\$0	\$0	\$1,406	\$1,777	\$0	\$0	(\$3,121)	\$0	\$0	\$0	\$6,000	\$15,500	\$0	\$0	\$0	\$0
Proceeds from exercise of warrants or options	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,879	\$1,879	\$1,200	\$1,200	\$1,200	\$1,200
Due to related companies	\$0	(\$69)	\$519	\$0	\$0	(\$683)	(\$725)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Due from related companies	\$0	\$0	\$322	\$0	\$0	\$0	(\$1,181)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Due to parent company	(\$1,601)	(\$2,095)	(\$5,241)	(\$5,586)	(\$188)	(\$193)	(\$149)	\$1,127	\$3	\$884	(\$55)	(\$55)	\$0	\$0	\$0	\$0
Due to joint venture partners	\$337	\$506	\$461	(\$4,367)	(\$825)	(\$1,201)	(\$1,187)	(\$681)	(\$45)	(\$22)	\$13	\$13	\$0	\$0	\$0	\$0
Other financing proceeds (costs)	\$0	\$0	\$0	\$181	\$0	\$124	\$124	\$124	\$0	\$0	(\$538)	(\$1,038)	\$0	\$0	\$0	\$0
Net cash provided by financing activities	(\$553)	(\$947)	(\$1,822)	(\$8,764)	(\$1,037)	(\$3,387)	(\$5,636)	(\$2,106)	(\$42)	\$862	\$7,299	\$16,299	\$1,200	\$1,200	\$1,200	\$1,200
Foreign exchange adjustment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$772	\$0	\$0	\$0	\$0	\$0
Net increase in cash	\$348	\$31	\$1,506	\$1,136	(\$1,180)	(\$1,341)	(\$1,601)	(\$1,564)	\$48	\$834	\$4,018	\$13,526	\$2,767	\$2,191	\$4,610	\$7,728
Beginning cash	\$628	\$628	\$628	\$628	\$1,783	\$1,783	\$1,783	\$1,783	\$219	\$219	\$219	\$219	\$13,745	\$13,745	\$13,745	\$13,745
Ending cash	\$976	\$659	\$2,134	\$1,764	\$603	\$442	\$182	\$219	\$267	\$1,053	\$4,237	\$13,745	\$16,513	\$15,936	\$18,356	\$21,473

Source: Company SEC filings and M.S. Howells & Co. estimates

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(5) Price Chart



Ratings History

January 19, 2006: Initiate with Buy Rating. Price = \$1.57. Price target = \$2.00.

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Valuation Methodology and Risk Factors

Price Target: \$2.00

Basis of Price Target: P/E multiple of 16X FY2006 earnings of \$0.12 per share.

Significant Risk Factors:

1. The company may make poor acquisitions diluting the value of the company's earnings.
2. Competition in the flour products and instant noodle markets may prevent the company from increasing revenues and profits.
3. Political and economic conditions in PRC may change and negatively impact the company's performance.
4. Large multinational corporations may cease to order products from New Dragon Asia.
5. A single shareholder, who may take action through voting rights that is not in the best interest of other shareholders, owns a large portion of the company.

(7) Additional Significant Risk Factors and Investment Considerations

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