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Dragon Capital Group Corp.

OTC Pink: DRGV

CURRENT PRICE: $0.041
52-WEEK RANGE: $0.015 - $0.135
AVERAGE DAILY VOLUME (50-DAY): 103,100
FLOAT: 40 million
OUTSTANDING SHARES: 201.6 million
MARKET CAPITALIZATION: $8.3 million

CONTINUING COVERAGE: SPECULATIVE STRONG BUY

COMPANY PROFILE

Dragon Capital Group Corp. (www.dragoncapital.us), headquartered in Shanghai, is a holding corporation with a majority stake in several emerging high-tech companies in the People's Republic of China. The Company focuses on information technology markets for wireless internet applications and mobile business solutions, enterprise management and computerized automation systems integration, network integration and management, as well as other IT products and services. The Company provides critical support functions to its portfolio companies, including general business consulting focused on revenue growth strategies, management and accounting services, access to capital, as well as merger and acquisition counsel. Through its subsidiaries, the Company has industry relationships with leading global technology and telecommunications firms, including a strategic partnership with Tencent Holdings Limited (HSE: 700), a premier wireless content provider in China, to offer third generation (3G) wireless services for two top-tier Chinese telecommunications companies, China Mobile Hong Kong Ltd (NYSE: CHL) and China Unicom Ltd (NYSE: CHU), as well as with Nokia Corp. (NYSE: NOK), Motorola, Inc. (NYSE: MOT) and Microsoft Corp. (NASDAQ: MSFT). The Company is also an authorized agent for Epson, Cannon, Hewlett Packard and OKI products. In addition to four operating high-tech companies acquired in 2005, the Company earlier this year announced two further acquisitions further strengthening its revenues and confirming the management's commitments to growth. Trading over the counter on the Pink Sheets under the symbol DRGV since May 2005, the Company is positioned to become a diversified marketer of innovative technologies in the rapidly growing information technology and wireless communications sectors in China.

STRATEGY

The Company's strategy entails a structured approach of identifying underlying technology market trends in China, investing in promising business opportunities, either by acquisition or other venture capital arrangements, developing significant revenue streams and growth strategies, as well as continually operating subsidiaries until potential spin-off or divestiture. By pulling together innovative companies from related high-tech segments, the model optimizes resources and promotes opportunities for synergistic business relationships within the portfolio group. The members of the Company's corporate high-tech community gain an immediate competitive advantage by having access to resources often unavailable to their stand-alone local counterparts in China. At the same time, the controlled hands-on management of the investments provides credibility for western investors otherwise reluctant to assume business risks in uncharted environments. With seasoned on-site management, the Company has established and maintained effective work relations and contacts within various governmental agencies, public institutes and private industries in China at both national and provincial levels, such as the Ministry of Foreign Trade and Economic Cooperation, State Development Planning Commission, Ministry of Construction, Ministry of Agriculture, Ministry of Science and Technology, Chinese Academy of Agricultural Sciences, State Drug Administration, China National Federation of Textile Industries and China National Center for Biotechnology Development.

In the past eighteen months, the Company has been strengthening its market position and shareholder value by acquiring attractively priced targets strategically fitting into its portfolio of companies, in a way to maximize cross-marketing opportunities and optimize respective cost structures. Currently, the Company continues to evaluate additional strategic acquisition opportunities in various information technology fields, including wireless applications, other telecommunications technologies and software development, and anticipates completing more acquisitions in the next year.

PORTFOLIO COMPANIES

Shanghai Dragon Capital Management and Consulting Company Limited (Dragon)

Founded in 2005, Dragon is a wholly owned subsidiary and investment management firm providing a development and support platform for the Company's operating entities, as well as other non-related Chinese companies seeking access to the U.S. capital markets. Dragon specializes in strategic corporate consulting, accounting, financial and human resources management, corporate legal affairs, public relations, as well as investment banking and investor relations activities, including capital formation, exchange listing, mergers and acquisitions, divestitures, spin-offs, business valuations, introduction to NASD member firms and Sarbanes Oxley compliance, among others.

Shanghai Cnnest Technology Development Company Limited (Cnnest)

Founded in 2002, Cnnest (www.cnnest.com) is a 51% owned subsidiary developing wireless consumer content applications and mobile business solutions. Since 2004, Cnnest has been partnering with Tencent Holdings Limited (Tencent), a pioneer of internet and mobile value-added services in China, to offer value-added services for China Mobile and China Unicom. The comprehensive strategic partnership includes several existing applications and ongoing cooperation on 3G technology using BREW, KJAVA, WAP, and SMS.

Cnnest's flagship "Mobile Real Estate" application offered to China Mobile's subscribers and Tencent's QQ customers is a primary component of the "Cnnest Model," which provides real estate market services, including listings and transaction data for approximately 800,000 registered users. Cnnest also offers a mobile hotel reservations application based on 3G technology, allowing cell phone users access to hotel reservation systems to review price and availability, as well as book a room for a large percentage of hotels in China. Last year, Cnnest launched two solutions based on 2.5G technology designed for utilization by various government agencies in China. "Mobile Environmental Protection Office System" and "Mobile Administrative Office System" allow government officers or employees working in a remote location to access their own intranet by using their PDAs or cell phones to coordinate mobile assignment functions, enterprise information inquires, on-site duties and customer service issues. Last year, Cnnest also entered into a partnership agreement with Shanghai Runyuan Logistics Company Limited (Runyuan), a reputable Chinese logistics leader, to form a joint venture dedicated to develop mobile internet solutions for the trucking and other freight industries. Under the agreement, Runyuan will provide funding for applications development and refinement in exchange for 75% of the joint venture. Other projects currently under development include human resources and mobile banking modules, as well as applications for the food, beverage, and entertainment industries. Cnnest is also currently seeking to cooperate with several of the top cell phone manufacturers, such as Motorola and Nokia, for imbedding software applications into their cell phone models.

Shanghai Yazheng Information Technology Company Limited (Yazheng)

Founded in 2000, Yazheng is a 90% owned subsidiary specializing in software development for e-business, computer networking and security, financial and enterprise information management applications, as well wireless Short Messaging Services (SMS). The Company also designs and programs embedded system applications for digitally controlled machines and electronic appliances, which can be integrated into solutions running under Windows or Linux operating systems. In the past the Company has completed numerous projects including Shanghai Blue Union Taxi Compliant Research System, Geographic Information System (GIS) Application for Shanghai GAS Transport System and Point-of-Sale (POS) system for Shanghai Xili Technology Company Limited, among numerous others.

In 2005, the Company signed three contracts to provide water control automation systems for Qidong Water Company, Nanhui Huinan Water Company, and Songjiang Jiuting Waste Water Treatment Company, tapping a lucrative emerging market in China. Given the vast area, large population and recurring water shortage problems in China, municipal water supply and treatment is a challenging task drawing increased attention from local government authorities. As concern for proper practice of environmental sciences accelerated, China devoted $85 billion to the Trans-Century Green Project from 2001 to 2005 to address various environmental problems. From 1998 to 2002, China has invested approximately $10 billion in city water supply, of which approximately $7.25 billion went to waste water treatment, resulting in 286 waste water treatment facilities. Supported by China's need to address its environmental problems as conditions of its World Trade Organization (WTO) membership, China's environmental market in major cities is expected to grow annually between 10-14% over the next decade. Valued at approximately $360,000, the systems encompassing raw water pre-processing and regular water treatment will employ the Company's proprietary software applications in conjunction with hardware developed by Schnide and Siemens.

Having received a license to operate as a wireless content provider, aggregator and mobile marketing provider in Shanghai in December 2003, Yazheng currently also offers mobile SMS applications to the public. Operating two websites (www.zc8888.com and www.yastandsms.com), Yazheng provides gaming and lottery information to cell phone users of major wireless carriers in Shanghai for a monthly fee.

Shanghai Fomde Information Technology Company, Limited (Fomde)

Founded in 2002, Fomde is a 51% owned subsidiary providing proprietary computerized automation systems for real property management. Fomde designs, develops and installs integrated customized hardware and software solutions automating and optimizing management of a variety of facilities, including schools, hospitals, hotels, as well as other industrial and commercial buildings and properties. The systems provide complete management solutions encompassing wiring, computer network, climate, security and access control, multimedia communication and broadcasting systems as well as related databases and software applications. Fomde has also developed post-construction quality control software applications for product and supplier selections, design and technical support. Fomde has been certified by the Ministry of National Architecture of China and the Ministry of Information Technology of China, as well as certified ISO 9001 in December 2004. In 2005, Fomde generated pro-forma revenues of $1.2 million, according to unaudited figures provided by the management.

Shanghai Zhaoli Technology Development Company Limited (Zhaoli)

Founded in 1999, Zhaoli is an 80% owned subsidiary operating as a hardware reseller and provider of integrated enterprise information management systems. Zhaoli sources electronic hardware, including laser printers, copiers, scanners, facsimile machines, multi-functional office equipment, module routers, switches, video telephones, computer supplies and network products, directly from a variety of leading global manufacturers. Zhaoli is an authorized general agent, distributor and technical service center operator for Epson, Cannon, Hewlett Packard and OKI products, selling and servicing the equipment through its main Shanghai location and nine additional retail branches, usually in prominent shopping malls. In 2005, Zhaoli has been ranked as Epson's No.2 distributor in China and has received a diamond award granted to distributors who attain $15 million in annual sales by Hewlett Packard. Zhaoli has also developed and sells a proprietary management information system to manage accounting, distribution, inventory and sales. Its customers include financial institutions, telecommunication companies, hospitals, supermarkets, airports, railway stations and various government agencies. In 2005, Zhaoli generated pro-forma revenues of $26.5 million, according to unaudited figures provided by the management.

Recent 2006 Acquisitions

In June 2006, the Company announced acquisitions of 51% stakes in two additional Chinese high-tech companies, extending its technological capabilities within IT network integration and management sector, as well as complementing its hardware equipment distribution operations, which provides an excellent opportunity to cross-sell among over 10,000 combined nationwide clients of Zhaoli and the two new subsidiaries.

Shanghai Longri Technology Development Company, Limited (Longri) provides network design, equipment installation, and after-sales services, including hardware and software integration and support, for various multi-national companies and is an authorized agent for several prominent IT product suppliers, such as Epson, IBM, Hewlett Packard, Samsung, Legend and Toshiba. Longri has established retail offices and service centers in Shanghai, Nanjing, and Hangzhou offering quality, professional network services for its customers throughout the eastern area of China. In 2005, Longri generated approximately $10 million in gross sales, according to unaudited figures presented by the Company.

Shanghai Huice Electronic System Integration Company, Limited (Huice) is also engaged in network integration and the distribution of information technology products, partnering with a diverse range of information technology companies, such as Microsoft, Oracle, Hewlett-Packard, IBM, Cisco Systems, Sun-Micro, Lucent, 3Com, APC, Polycom, Epson, Samsung, Panasonic, NEC, Toshiba, Lenovo and Acer. Last year, Huice attained ISO9001 certification issued by Moody International ISO Certification Registrar for its service center. In 2005, Huice generated approximately $9 million in gross revenues, according to unaudited figures presented by the Company.

INDUSTRY

Following over two decades of unparalleled GDP growth averaging 9.6% since 1979, the Chinese economy maintained strong momentum in 2004, expanding 10.1% according to the most recently revised figures by China's National Bureau of Statistics. As the world's most populous country with 1.3 billion people in the midst of a steady transition to a free market economy, China boasts a propitious macro economic and regulatory climate that continues to attract tremendous global investment. In 2004, foreign direct investment (FDI) surged to a record high of almost $61 billion, rising 13.3% over 2003. At the same time, together with improving standard of living marked by rising per capita incomes and growing urban middle-class population, the economic focus is gradually shifting from traditional manufacturing ventures, which flooded the world markets with "Made in China" products to investments in more highly specialized technologies and service sectors. According to the Chinese Academy of Social Science the middle class is estimated to number some 120–150 million people or 40–50 million households, up five-fold from 8 million households in 1978. Household purchasing power is between $9,000–12,000 and household wealth is approximately $36,000. Supported by the country's admission to the World Trade Organization (WTO) in 2001, the combination of massive capital investment, low cost labor and a blossoming domestic consumer economy presents a rare opportunity to invest in a nation becoming a major economic superpower.

Given the country's size and its demographics, telecommunications currently clearly play one of the major roles in the Chinese industry landscape. Over the last decade, the Chinese telecommunication service sector has gone through key reforms that substantially deregulated the market previously dominated by the monopolistic China Telecom. Today, the mobile telecom segment is dominated by China Mobile Hong Kong Ltd (NYSE: CHL), which in 2004 was selected as one of 'The World's 400 A-List Companies' by the internationally renowned business magazine Forbes for the third consecutive year, unprecedented for a Chinese company. In fact, China Mobile and China Unicom, the second power on the Mainland, currently rank as the number one and number three mobile carriers in the world. China surpassed the U.S. as the number one mobile market in the world already in 2002. No country in the world comes close to the 400 million cell phone users currently in China.

In the mobile equipment market, the multinational firms that had an early presence in China, such as Motorola, Nokia Corp., Ericsson, Siemens AG, Sony Corp., Toshiba Corp. and Matsushita Electric Corp. have made China an important base for manufacturing, purchasing and research and development. China's largest foreign investor and overall exporter is Motorola, Inc., the world's second largest mobile phone producer, which has invested a total of $3.7 billion in China over the past few years. Still, according to figures quoted by Michael Tatelman, general manager of Motorola's Mobile Devices North Asia, the handset penetration rate is still less than 40% in China.

As the market grows, mobile subscribers in China are increasingly using their wireless handsets to access a wider range of value-added services, including instant message, information services and games applications. The Short Messaging Services (SMS) telecom niche is an Asian phenomenon, with Chinese SMS usage of over 500 billion text messages transmitted over 350 million cellular phone users in 2004 accounting for one-third of the world's traffic, according to the Ministry of Information Technology of China. Yet, compared to mobile voice communications, mobile data communications is still at an early stage in China, accounting for only 9.4% of total mobile revenues in 2002, according to Pyramid Research. However, Strategy Analytics reports that cellular data services will become more important in the future and will account for approximately 36% of global mobile revenue in 2010.

But with the technology moving into third generation wireless technology, allowing increased bandwidth and speed, China Mobile and China Unicom expanded their mobile data services by launching the Monternet and Uni-Info platforms, respectively, further spurring growth of value-added wireless services. Both companies adopted similar business models of partnering with Internet content and service providers who developed mobile content and data services while mobile operators provide the transmission network, billing systems, and fee collection services for the service providers based on revenue sharing arrangements. To encourage third party content providers to develop more MMS content, China Mobile raised the revenue share ratio, and now 85% of the MMS revenue goes to the service providers, while the carrier takes the remaining 15%, favoring service developers in comparison to the 80:20 revenue share ratio for plain-text SMS services.

MANAGEMENT

The Company's Sino-American team has entrepreneurial spirit, decades of bi-cultural executive business experience, solid technology backgrounds, as well as the critical edge of high level contacts with China's policymakers and industry leaders.

Lawrence Wang, the Company's CEO, President and Chairman, is one of founders of Yazheng, where he has held its General Manager position since inception in 2000. For a decade prior to founding Yazheng, Mr. Wang was first an Assistant Professor and then an Associate Professor at of Department of Computer Science at Tongji University in Shanghai, China. During his career, Mr. Wang gained extensive experience in data warehousing and excavation, embedded computer systems and networking. Mr. Wang earned his Bachelor of Science in Computer Sciences at Jiaotong University, Shanghai, China in 1983.

Robert Zhuang, Vice President and Director is an expert on Sino-western business development with nearly two decades of experience in consulting to small and medium enterprises in China, providing capital raising services, including public offerings in the U.S., as well as marketing, strategic management, public relations and human resource support.

Wuzhang Wang, the Company's Director, founded Zhaoli and has held the position of General Manager since its inception in 2000, growing annual sales to $26 million in 2005. Mr. Wang has extensive experience in distribution and marketing in China. He earned his Bachelor of Science in Computer Sciences at Jiaotong University in 1990.

Daniel Gi, Director, has served as General Manager of Fomde since 2000. From 1993 to 2000, Mr. Gi worked at the Department of Computer Science as the director of artificial science laboratory at Tongji University. Mr. Gi received a Master Degree in Computer Science at Tongji University in 1993.

Hidy Cheng, Vice President, is a seasoned technology executive, who prior to joining the Company held the CEO position at Shanghai Xinchao Technology Development Co. Ltd since 2004, a General Manger of Shanghai JiuNeng Computer Information Technology Co. Ltd which he founded in 2003, Vice President of Shanghai Zhongyu Telecommunication Technology Co. Ltd since 2002. Mr. Cheng also founded Shanghai AOBEI Technology Co. Ltd which collaborated with HUAWei Development to develop the Chinese domain name system. In his career, Mr. Cheng also worked as manager of market and sales department in Shanghai TIANNOU Technology Development Co. Ltd and a salesman in Nanning branch of the Legend Computer System Ltd. Mr. Chen graduated from GuangXi University in 1995.

FINANCIALS AND OUTLOOK

Although the Company has to date not filed SEC reports with financial results audited by an independent CPA firm, according to data disclosed by the management in press releases, the Company's 2005 unaudited consolidated pro-forma revenues were $28 million. For the first nine months of 2006 ended September 30, 2006, the Company recorded revenues of approximately $29.8 million, with $11.7 contributed in the most recent quarter. This translates to an annual revenue run rate in excess of $40 million, not accounting for any potential increases from seasonal fluctuations and further acquisitions. In the first three quarters, the Company generated operating income of $982,493 and net income of $386,662, which was affected by a one-time charge of $206,900 associated with financing and acquisition integration. As of September 30, 2006, the Company had net worth of approximately $4.7 million, cash of $1.7 million and working capital of $4.4 million.

In addition to organic growth supported by the quick development of the Chinese IT industry, the Company's management is focused on swiftly increasing shareholder value through an aggressive acquisition strategy, which takes advantage of its close industry relationships and unique capability to negotiate favorable valuations of sound technology companies in China. The two recent acquisitions of Shanghai Longri Technology Development Company Ltd and Shanghai Huice Electronic System Integration Company Ltd yielded ownership of 51% of businesses with combined unaudited 2005 gross revenues of $19 million and net income of $1.3 million, as announced in the Company's press releases, in transactions valued at $1.04 million, based on 13 million restricted shares to be issued at $0.08 per share, or just over 0.1 and 1.5 times trailing revenues and net earnings, respectively. Given the current market conditions in China, which often result in acquisition costs based on net tangible assets of a target company, the Company is focused to continue its acquisition strategy, funding the growth through equity issuance and/or cash.

Following the issuance of common stock payment for the two mid-year acquisitions, the Company should have approximately 215 million shares outstanding. Assuming materialization of expected growth trends in the fourth quarter, the Company's earnings per share based on management's projections could possibly reach $0.01 in 2006, resulting in a forward PE ratio of about 4 at current price of $0.041. At current levels, the DRGV shares appear significantly undervalued with respect to revenue or earnings potential and comparable public companies. Pacificnet, Inc. (NASDAQ: PACT), a conglomerate of Chinese technology companies providing outsourcing and value-added services with revenues of $59.0 million, has a market cap of $50.0 million and a PE of 32. TOM Online, Inc. (NASDAQ: TOMO), a wireless internet company offering multimedia content to subscribers in China, with revenues of $185.7 million, has a market cap of $751.3 million and a PE of 18. *All figures provided for comparable companies are based on trailing twelve months results as of September 30, 2006.*

While appearing to offer considerable potential for substantial corporate growth, DRGV is a highly speculative security, which should only be considered by investors with very high risk tolerance. General business risks include competitive nature of the high-tech business, limited capital resources at this early stage and potential for significant dilution, as well as uncertainties related to the foreign domicile, including the fact that all assets are based in the PRC, outside the jurisdiction of any legal system of the US. Other evident risk factors involving compliance issues and the nature of the penny stock regulatory environment include limited financial information due to lack of consistent SEC reporting, low liquidity, high price volatility and other risks associated with the general lack of broker interest in pink sheet listings. The shares may also experience volatility and downward price pressure in 2007 due to any potential future selling of restricted shares issued at significant discount to the market in recent private offerings and future equity financed acquisitions. Any such shares become free to trade after one year, limited only by insider trading rule 144 restrictions. However, notwithstanding the above risks, DRGV appears to offer very attractive opportunity to speculators willing to assume the very high risks, especially as it is beginning to show growth of revenues from acquisitions.

The management anticipates that the acquisitions completed in June, which could together contribute $10 million in revenue in 2006, may also accelerate organic growth throughout the Company by providing various cross-marketing opportunities, at the same time providing potential operating costs savings and other anticipated synergies. The current valuation does not seem to fully reflect the Company's relatively large revenue base and aggressive acquisition strategy. The strong background of the management team and recent accomplishments augur well for the Company's long term success, boding well for further growth. Given the abundant IT market opportunities in China, the Company's current stock price seems very attractive for long term speculative accumulation, particularly based on the market capitalization multiples related to sales and earnings when set versus many of its closest comparables. As the Company's valuation begins approaching average industry multiples, the share price could possibly reach a level of $0.15 within the next 18 to 24 months, tripling from today's value.

Alan Stone, Managing Director

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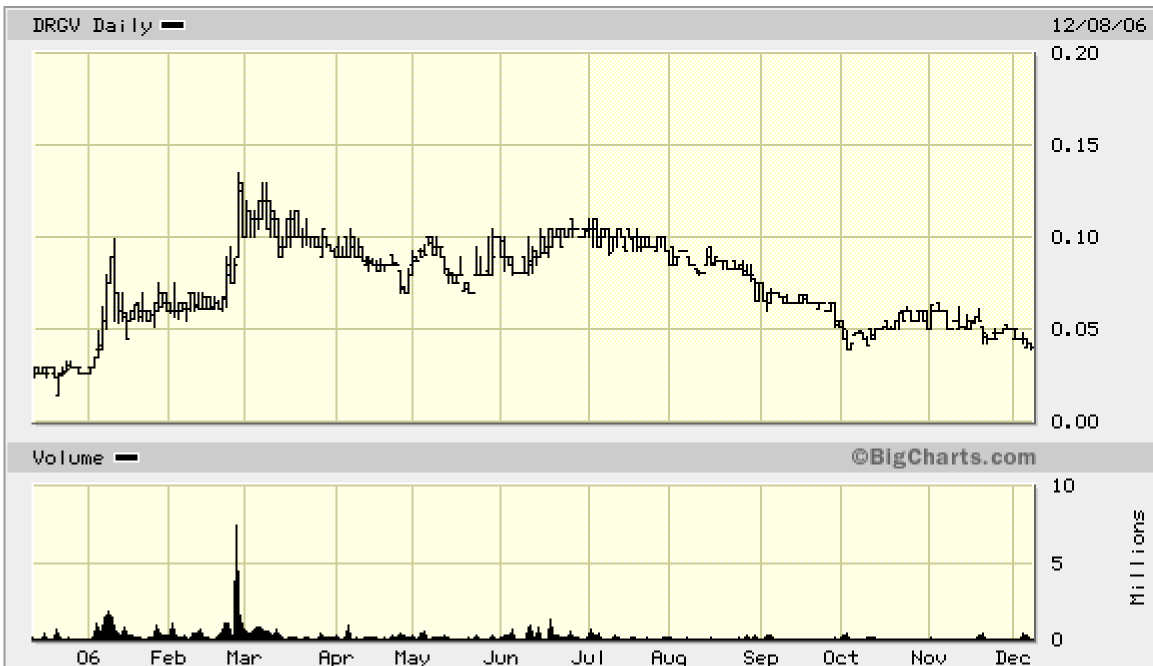

OTC Pink: DRGV

The shares experienced strong growth in price reaching a high of $0.135 in March 2006. Having drifted down on lighter volume to the current level of about $0.04, the shares appear to have formed a base level and could rebound possibly reaching the previous highs on news of growth via acquisitions and more meaningful profitability expected by the management.

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