



NIV (NYSE Alternext US) **\$3.75**
Rating: Buy
Price Target: L/T **\$12.00**

MARKET DATA

| | |
|---|-------------|
| 52-Week High/Low* | N/A |
| Ave. Daily Volume* | N/A |
| Shares Outstanding (approx) (post-offering) | 40 mil sh |
| Fully Diluted (approx) | N/A |
| Public Float (approx) | 8.27 mil sh |
| Short Position/Ratio (approx) | N/A |

*The stock of NIVS commenced trading on March 13, 2009.

FINANCIAL DATA

| | |
|--|-------------|
| Market Capitalization (Fully Diluted approx) | \$150 mil |
| Cash & Equivalents (9/30)* | \$3.11 mil |
| Restricted Cash (9/30) | \$4.32 mil |
| Book Value (approx post-offering) | \$1.31 |
| Short-term Debt (approx 9/30)** | \$55.53 mil |
| Long-term Debt (approx 9/30)# | \$9.13 mil |
| Total Debt (approx 9/30)**# | \$64.66 mil |
| Total Debt/Equity (approx post-offering)*** | 125% |
| Total Debt/Total Capitalization(approx post-off.)*** | 55% |

*Does not include approx \$1.2-\$1.4 mil. rec'd from public offering.

**Debt exclusive of additional liabilities of approx \$18.17 mil.

***Many figures will be adjusted post-offering.

#Debt will be reduced by approx \$7.8 mil post-offering.

| | Revs | EPS | Oper Cash Flow |
|---------|--------------|---------|-----------------|
| 2005 | \$ 21.97 mil | \$ 0.07 | \$ 1,646,649 |
| 2006* | \$ 37.79 mil | \$ 0.19 | \$ 13,216,380 |
| Q3** | \$ 17.04 mil | \$ 0.05 | \$ (10,984,029) |
| Q4 | \$ 26.88 mil | \$ 0.17 | \$ 5,195,405 |
| 2007* | \$ 77.6 mil | \$ 0.31 | \$ (10,462,048) |
| Q3** | \$ 49.58 mil | \$ 0.13 | \$ (11,192,263) |
| Q4*** | | | |
| 2008*** | \$ 143.6 mil | | |

*Total revenues (revenues plus "other" sales). Revenues for 2007 have been adjusted by the company.

**Figures for Q1 & Q2 of 2007 & 2008 have not been individually broken out, however cumulative 6 & 9 months figures are available.

***The co. issued preliminary 2008 results on March 2. EPS numbers might not add exactly due to rounding.

Ira Zadikow Research Analyst
Pro-Active Research Group 646 315 7070

Report Type INITIATION OF COVERAGE March 16, 2009

NIVS IntelliMedia Technology

COMPANY PROFILE

NIVS IntelliMedia develops, produces and sells audio, video and other consumer electronics products. Their products are sold on a brand name and OEM basis globally with their revenues currently generated primarily in China and Asia.

INITIATING COVERAGE WITH A BUY RATING

HIGHLIGHTS

- **The company has demonstrated excellent revenue growth.** 2007 revenues were \$78 mil, up 105% y-t-y. Q3 revenues were \$49 million, up 191% y-t-y. The co. has issued preliminary 2008 revenue results of \$143.6 million, up 85% y-t-y, and is currently at an annual revenue run-rate of approx \$190-\$200 mil. On a valuation basis the company is currently trading at approx. one times their 2008 rev's and approx three-quarters of their current annual revenue run-rate.
- **The co. sees various growth opportunities** including expanding and diversifying their product offerings, expanding their sales and distribution channels, increasing their marketing efforts, developing partnerships and strategic alliances and capitalizing on their Chinese speech voice recognition technology.
- **The co. is an established manufacturer and distributor** of audio-video products, sold on a brand name and OEM basis.
- **Initiate coverage with a Buy rating.**

COMPANY WEBSITE

www.nivs.cn/en



PLEASE READ THE IMPORTANT DISCLOSURES AND CERTIFICATIONS AT THE END OF THIS REPORT

INITIATING COVERAGE OF NIVS INTELLIMEDIA TECHNOLOGY GROUP, INC. WITH A BUY RATING

We are initiating coverage of NIVS IntelliMedia Technology Group, Inc. with a Buy rating.

COMPANY SUMMARY

NIVS IntelliMedia Technology Group develops, produces and sells audio and video equipment and set-top box products. The company has developed an established brand name in China. The company's customer base consists of wholesalers and distributors of electronic products on a brand name as well as an original equipment manufacturer ("OEM") basis. Their products are distributed on a global basis, with China and Asia currently their largest markets.

The company's principal executive offices, manufacturing and product development facilities are all located in Huizhou, Guangdong, China (People's Republic of China, "PRC"). The company is incorporated in Delaware.

COMPANY BACKGROUND

The present corporate structure of NIVS IntelliMedia was created through a reverse acquisition that essentially combined NIVS BVI with a "blank check" company, SRKP 19. That transaction closed on July 25, 2008. SRKP 19 was originally incorporated in December 2006 with the purpose of acquiring a target company or business. Upon the closing the name of the (consolidated) company was changed to NIVS IntelliMedia Technology Group, Inc. The historical financials that the company reports are the pre-acquisition financial statements of NIVS BVI and are treated as the historical financial statements of the consolidated companies. NIVS PRC (NIVS BVI is primarily a holding company) was originally created in March 1998.

THE COMPANY

NIVS IntelliMedia Technology Group, Inc. develops, produces and sells audio and video consumer products. Their products include digital audio systems, televisions, digital video broadcasting (DVB) set-top boxes and DVD players as well as peripheral products and accessories including remote controls, headphones and portable entertainment devices such as MP3 players.

The company categorizes their products into "standard/traditional" and "intelligent" audio and video product segments. Their standard products include mid- and high-end audio products including premium home theater systems, speakers, shelf-stereo systems, televisions, DVD players, DVB set-top boxes and portable digital players, among others. The growth of this segment has been driven primarily by increased consumer demand for flat screen digital televisions and for audio and visual products that complement those flat screen televisions. Emerging markets such as China, Russia and India, as well as additional geographies, have been key drivers for growth in this segment, as well as online. The company currently offers approximately 250 standard products and 30 intelligent products.

Their intelligent products incorporate the company's Chinese interactive voice recognition speech technology into their traditional audio and video products, and permit users to control these products through spoken commands. The market for intelligent products is newer and less developed than that for standard products, and the market for Chinese intelligent products is less developed than that for products based on Western languages. The company has devoted considerable efforts to R&D efforts on their Chinese voice recognition technology, which they believe will aid the company in diversifying their product line as well as generating higher profit margin products. The company is pursuing partnerships and strategic alliances in a variety of settings in order to capitalize on their technology which they feel is applicable to a host of devices including mobile phones, entertainment devices and GPS devices. The company believes that the technology will be useful for entering SMS messages, mobile instant messages and mobile email instead of using keypad entry as well as additional uses for voice-activated calling, among numerous other potential applications.

The company has demonstrated significant growth over the past several years and in certain specific product segments it has been even more dramatic. The reasons for this are varied, including expanded production capabilities, product upgrades and new product introductions, increased promotion of self-branded products,

expansion of sales channels, increased R&D spending and increased market acceptance of the company's "intelligent" audio and video products.

The company's customer/distribution base consists of wholesalers and distributors of electronic products, including resellers, specialty retailers, international and regional chains and mass merchants, selling the company's products on a brand name as well as an original equipment manufacturer ("OEM") basis. Wal-Mart is a distributor, among many others. China and Asia are their largest markets, however their products are sold on a global basis including Europe and North and South America. On a geographic basis, for the first three quarters of 2008, the company's revenues were derived from China/Hong Kong: 51%, Other Asia: 29%, North America: 10%, South America: 6% and Europe: 3%.

For the first three quarters of 2008, OEM sales accounted for approximately 65% of the company's revenues and self-branded products accounted for approximately 35%. Over the past few years the company's revenues have been increasingly coming from self-branded products as the company has been focusing its strategy and marketing efforts. The company's outsourced solutions for OEMs include engineering, design, assembly, testing, distribution and after-market services. The company's OEM customers include Samsung and Hyundai, among many others.

China is currently the second largest consumer market for electronic products in the world. There are several advantages to manufacturing in China including low labor costs, access to raw materials and access to an active electronics supply chain.

COMPANY GOALS/EXPANSION PLANS

The company intends to increase their global reach and market share for their audio and video consumer electronic products. The company is planning on achieving this growth by various means including the following:

Expand and diversify the company's product offerings

Expand the scope of their product offerings, especially with their intelligent consumer electronic products utilizing their Chinese speech controlled technology.

Build partnerships with new and existing clients

Strengthen existing customer relationships, develop new customer relationships and leverage the company's Chinese speech technology to develop relationships and strategic alliances with third-party developers, vendors and manufacturers of mobile phones, entertainment devices and GPS navigation devices for use in their products.

Expand the company's global presence

Expand their global presence especially in markets including Hong Kong, the Middle East, India, Great Britain, Germany, the United States and Argentina, among others, by adding distributors and regional sales representatives.

Expand the company's sales network and distribution channels in China

Expand their sales network in China and develop relationships with a broader set of wholesalers, distributors and resellers.

Augment marketing and promotion efforts to increase brand awareness

Increase their brand development and awareness by utilizing various marketing strategies.

FINANCIALS

As has been previously mentioned, the financials that the company reports on an historical basis are the “pre-acquisition” financial statements of NIVS BVI and are treated as the historical financial statements of the consolidated companies.

Q4/2008 YEAR-END RESULTS

On March 2, 2009 the company issued preliminary selected 2008 year-end results. We’ll briefly recap these results now and issue an update when complete results are released, which we’d expect within the next several days.

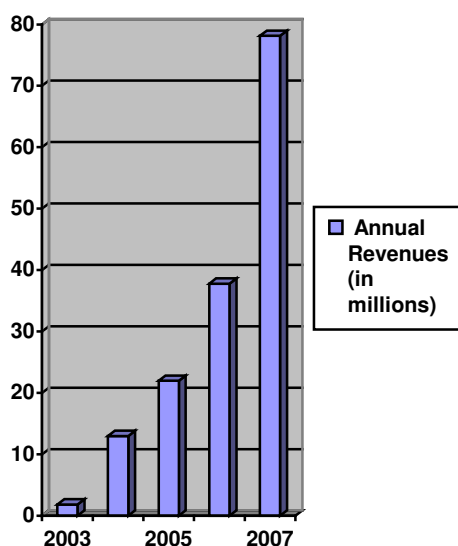
The company expects its 2008 revenues to be \$143.6 million vs. \$77.6 million for 2007, up 85% year-to-year. (We would note that 2007 revenues have been adjusted). The company expects their 2008 net income to be approx. \$13 million vs. \$8.5 million for 2007, up 53% year-to-year.

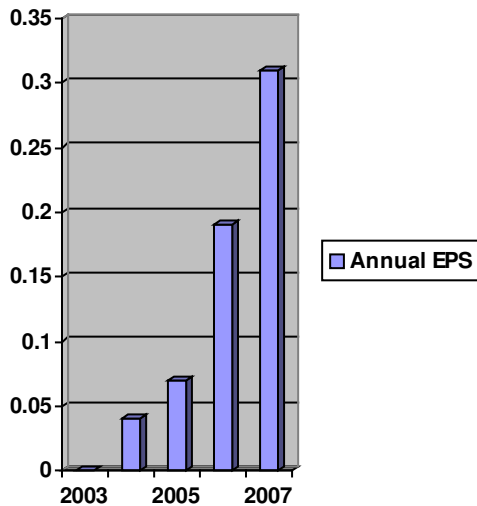
The company expects their 2008 G&A expenses to be approximately \$8.7 million. This amount includes a bad debt expense of approx. \$2.5 million, the bulk of which resulted from a bad expense of \$1.7 million in Q4. The \$1.7 million bad debt amount is due to an increase in the aging of the company’s accounts receivable. The company’s doubtful account allowance increased to approx. \$3.4 million. The company increased its reserve for doubtful accounts during Q4 due to an increase in the aging of its accounts receivable, the outstanding balance of receivables as of Dec. 31, 2008 and also general deteriorating global economic conditions.

Q3 RESULTS

The company’s Q3 revenues were \$49.58 mil. (including “other sales”) vs. \$17.04 mil. (including “other sales”) for their Q3 of 2007, up 191% year-to-year. Their net income was \$4.56 mil. vs. \$1.43 mil. for their Q3 of 2007, up 219%. Their EPS was \$0.13 vs. \$0.05 for their Q3 of 2007, up 160%. Their operating cash flow (ocf) loss was \$(11.19) mil. vs. \$(10.98) mil. for their Q3 of 2007.

Sales growth in the quarter was driven by a variety of factors including a greater number of product offerings, especially digital equipment and LCD products, televisions and intelligent audio and video equipment, increased manufacturing capacity and distribution capabilities, and price increases, especially on their standard audio and video products.





We will update the above charts when complete 2008 results are released.

SEGMENT BREAKDOWN

In their 10-Q for the third quarter the company reported their revenues broken out by segment on a “cumulative” quarterly basis, meaning for the total of the 9 months consisting of the first 3 quarters of 2008. The company also discussed their segment revenue basis for their Q3 alone, however, we would note that these revenue figures do not appear to be entirely accurate, so for the time being we will just list their segment revenue breakdown for the 9 months. For that period their “standard” audio & video equipment generated approximately \$67.3 million, or approximately 67% of their revenues, their “intelligent” audio & video equipment generated approximately \$23.7 million, or approximately 23% of their revenues, and a category labeled as “other” audio & video equipment generated approximately \$9.9 million, or approximately 9% of their revenues.

MARGINS

The company’s gross profit margin for Q3 was 23%, and their net profit margin was 9%. The company does not report their gross profits/margins broken out on a segment basis, which we believe would serve to differentiate their profits on their intelligent products versus their standard, and other, products.

EXPENSES

The company reports their operating expenses (OpEx) broken out separately for selling expenses, for general and administrative and for R&D. We will group them altogether as a total amount, for “S,G&A”. For Q3 the company’s total operating expenses were \$5.5 million. The primary OpEx items were selling expenses of \$1.3 million, merger costs (for costs associated with the reverse merger with SRKP 19) of \$1.8 million, “stock-based compensation” of \$765,000 (though we would note that it seems that all of that amount was then added back to operating cash flow, thus making it a “non-cash” charge), an “Other G&A” item of \$857,000 (which was not discussed as to its composition) as well as other expense items including depreciation and amortization (which were also then added back to operating cash flow). The company also includes “Bad debts”/“bad debt reserves” in their expenses, and this amount was \$424,000 for the quarter, however, we would note that this amount, or at least a (large) portion of it, was also then added back to operating cash flow, in essence negating it. The company also anticipates additional ongoing expense costs associated with them being a publicly traded company. The company’s Q3 interest expense was \$518,000, however, the company also generated \$251,000 from interest income, so for the quarter we would view this as approximately a \$270,000 “net” interest expense amount. We would thus estimate the company’s

ongoing actual quarterly cash outlays for operating expenses in the range of approximately \$2.5-\$3 million, which should generally easily leave the company with a positive bottom line net income and EPS.

OPERATING CASH FLOW

On an operating cash flow (ocf) basis the company had negative ocf in their Q3 of \$(11.2) million, and their ocf has vacillated widely and rapidly. The primary negative items in the quarter were their accounts receivable, increasing by \$16 million from Q2 (from negative \$1.3 million to negative \$17.3 million), their advance to suppliers for purchases (deposits and advances paid to suppliers), decreasing from Q2 by \$4.2 million, though still a negative \$9.6 million for the 9 months, and their accounts payable and accrued liabilities, increasing by \$15.4 million (from positive \$10.5 million to negative \$4.9 million). However, their current “cumulative” accounts receivable figure, found on their balance sheet (as “Trade receivables”), is \$21 million, their advances to suppliers is \$24 million and their accounts payable is \$8.4 million. Their inventories item was a positive figure for the quarter of \$10.5 million, and on a cumulative basis is actually listed as \$6.8 million. The company’s restricted cash is actually listed as a negative number on their ocf, at \$2.3 million as of the 9 months, though the “cumulative” amount on their balance sheet currently is \$4.3 million. Their prepaid expenses and deposits item, though increasing by \$2.5 million (from negative \$64,000 to negative \$2.6 million), actually reflects deposits of 30% paid by customers, so is deceiving. The customer deposits are actually recorded as a liability when they are received, and are then recognized as revenues when the total balances are paid.

All things considered, there are primarily three operating cash flow items that merit increased attention: their accounts receivable, their advances to suppliers and their accounts payable items. We would importantly note that these items basically reflect a “summary” of their ongoing liquidity/cash flow/working capital position, due primarily to the longer payment terms that they offer to customers of 30-90 days (even considering the 30% “deposits” received from customers), whereas their payments deposited and owed to suppliers (and other monies owed) is much more stringent, thus creating potential cash flow imbalances and short term cash needs. In essence their payment cycle is considerably shorter than their receivable cycle. And with the company growing and increasing their revenues, this can actually increase negative cash flow issues and increase the need for borrowing, etc., in order to fund their increasing needs for product inventory though not receiving payments for their finished goods for possibly an additional 3-4 months.

FUNDING

As of December 31, 2008, as released in the company’s preliminary 2008 results, the company had cash and cash equivalents of approximately \$0.5 million. We would note that the company will be receiving approximately \$1.2-\$1.4 million from their just completed public offering, which will be included in their Q1 2009 results.

As of September 30, 2008 (the company’s complete Q3 results), the company had approximately \$3.1 million in cash and equivalents (and \$4.32 million in restricted cash) and approximately \$64.66 million in total debt, as well as approximately \$18.17 million in additional liabilities. We would note the company’s very high debt levels, though these will be reduced by approximately \$7.8 million after the public offering due to an exchange for stock. Their debt/equity ratio was approximately 178% and their debt/total capitalization ratio was approximately 64%, however adjusted for the public offering these figures should be approximately 125% and 55%, respectively.

UPCOMING CATALYSTS/BENCHMARKS

| | |
|-------|--|
| March | Q4, Year-end financial results |
| May | Q1 financial results |
| N/A | Company’s execution of goals including increased product diversification, increased distribution channels, increased geographic distribution, increased brand market awareness and increased revenues. |

VALUATION/PROJECTIONS

The current market capitalization of the company is approximately \$150 million. On a valuation basis this is approximately one times their 2008 revenues and approximately three-quarters of what they are currently generating

on an annual revenue run-rate, without factoring in future growth and a higher annual revenue run-rate going-forward. This in our opinion is obviously not a high valuation for a company with the growth rate that they've exhibited.

We'd assume that the company can increase its annual revenues to a range of \$250-\$300 million within the next 2-3 years, if not greater. Based on these revenues, and giving the company a valuation of two times sales, we believe that a stock price in the range of \$12.00 within the next 24 months is realistic, or a potential return of approximately 220%. This would also translate into a P/E ratio of approximately 11 times earnings, or potentially lower, which would be a very reasonable valuation leaving room for upside multiple expansion and a potentially higher stock price.

SUMMARY/OPINION

NIVS has exhibited significant revenue growth, increasing from \$1.8 million in 2003 to \$38 million in 2006, \$78 million in 2007 and a preliminary reported amount of \$143.6 million in 2008. Their current quarterly run-rate is approximately \$45-\$50 million, equating to a current annual run-rate of approximately \$190-\$200 million. The company has established a brand name in China, has established distribution channels on a global basis, has developed relationships with Samsung and Hyundai, sells brand name products as well as providing outsourced OEM functions and has a strategic plan for growing the company. We believe that the company is currently undervalued and has substantial appreciation potential. We would also note that their is potential upside from their Chinese speech recognition technology from licensing and other potential revenue sources due to growing interest and an increasing number of applications being developed within this technology niche. On a cautious note, debt levels are very high as are certain large negative operating cash flow items.

We are initiating coverage of NIVS with a Buy rating.

Additional information is available upon request.

NIVS IntelliMedia Technology Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In US Dollars)

| | <u>For Three Months Ended</u> | | <u>For Nine Months Ended</u> | |
|-----------------------------------|-------------------------------|------------------|------------------------------|-------------------|
| | <u>September 30,</u> | | <u>September 30,</u> | |
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenue | \$ 49,411,468 | \$ 16,730,346 | \$ 101,048,363 | \$ 50,660,199 |
| Other Sales | 164,939 | 313,838 | 320,992 | 599,219 |
| Cost of Goods Sold | (38,261,969) | (12,743,673) | (77,852,802) | (38,742,351) |
| Gross Profit | <u>11,314,438</u> | <u>4,300,511</u> | <u>23,516,553</u> | <u>12,517,067</u> |
| Selling Expenses | 1,286,796 | 826,037 | 2,649,900 | 2,543,024 |
| - | | | | |
| General and administrative | | - | | |
| Amortization | 18,003 | 14,858 | 51,491 | 45,482 |
| Depreciation | 87,859 | 71,267 | 249,068 | 205,149 |
| Bad debts | 424,299 | 338,838 | 808,401 | 1,122,461 |

| | | | | |
|---|---------------------|---------------------|----------------------|---------------------|
| Merger cost | 1,783,586 | - | 1,783,586 | - |
| Stock-based compensation (Note 21) | 765,000 | - | 765,000 | - |
| Others General and administrative (Note 14) | 857,584 | 765,073 | 1,891,291 | 1,866,401 |
| Total General and administrative | 3,936,331 | 1,190,036 | 5,548,837 | 3,239,493 |
| Research and development | 261,141 | 115,107 | 668,323 | 257,379 |
| Total operating expenses | 5,484,268 | 2,131,180 | 8,867,060 | 6,039,896 |
| Income from operations | 5,830,170 | 2,169,331 | 14,649,493 | 6,477,171 |
| Other income (expenses) | | | | |
| Government grant | 21,506 | - | 21,506 | - |
| Write-down of inventory | - | (2,799) | - | (393,205) |
| Interest income | 250,664 | (10,104) | 393,946 | 1,204 |
| Interest expense | (517,857) | (353,561) | (1,563,094) | (993,656) |
| Imputed interest | (147,620) | (245,371) | (446,953) | (494,610) |
| Sundry income (expense), net | (31,544) | (33,545) | (22,370) | (65,973) |
| Total other income (expenses) | (424,851) | (645,380) | (1,616,965) | (1,946,240) |
| Income before minority interest and income taxes | 5,405,319 | 1,523,951 | 13,032,528 | 4,530,931 |
| Income taxes | (645,936) | (54,057) | (1,621,020) | (488,179) |
| Minority interest | (196,195) | (36,761) | (363,328) | (101,421) |
| Net Income | \$ 4,563,188 | \$ 1,433,133 | \$ 11,048,180 | \$ 3,941,331 |
| Basic and diluted earnings per share | \$ 0.13 | \$ 0.05 | \$ 0.37 | \$ 0.14 |
| Weighted-average shares outstanding | 34,147,201 | 27,546,667 | 29,746,845 | 27,546,667 |

NIVS IntelliMedia Technology Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In US Dollars)

| | For Nine Months Ended | |
|---|------------------------------|--------------------|
| | September 30, | |
| | 2008 | 2007 |
| Cash Flows From Operating Activities | (Unaudited) | (Unaudited) |
| Net Income | \$ 11,048,180 | \$ 3,941,331 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Minority Interest | 363,328 | 101,421 |
| Bad debts | 808,401 | 1,122,461 |
| Depreciation | 3,575,811 | 767,755 |
| Amortization | 51,491 | 45,482 |
| Imputed interest | 446,953 | 494,610 |

| | | |
|---|---------------------|---------------------|
| Stock-based compensation | 765,000 | - |
| Write-down of inventory | - | 393,205 |
| Changes in operating assets and liabilities: | | |
| Account receivable-trade | (17,268,951) | (6,778,942) |
| Interest receivables | (393,919) | - |
| Advance to suppliers for purchases | (9,583,376) | (10,343,039) |
| Prepaid expenses and deposits | (2,569,116) | (127,780) |
| Inventories, net | 10,499,518 | (6,943,597) |
| Restricted cash | (2,334,918) | (1,678,062) |
| Accounts payable and accrued liabilities | (4,925,735) | 4,845,147 |
| Various taxes payable | 795,962 | (1,740,064) |
| Wages payable | (237,039) | (16,510) |
| Corporate tax payable | 604,280 | 259,129 |
| Net cash used in operating activities | <u>(8,354,130)</u> | <u>(15,657,453)</u> |
| Cash Flows From Investing Activities | | |
| Purchases of property and equipment | (8,176,812) | (1,847,361) |
| Purchases of intangible assets | (28,674) | - |
| Net cash used in investing activities | <u>(8,205,486)</u> | <u>(1,847,361)</u> |
| Cash Flows From Financing Activities | | |
| Proceeds of loans | 69,977,859 | 58,645,500 |
| Repayments of loans | (66,957,669) | (42,016,949) |
| Proceeds of bank notes | 27,571,598 | 16,476,779 |
| Repayments of bank notes | (16,964,527) | (17,001,581) |
| Capital lease payable | - | (61,669) |
| Net proceeds from private placement | 10,487,474 | |
| Due to shareholder | (1,875,133) | 9,655,704 |
| Due from related parties | (5,406,525) | (7,229,905) |
| Due to related parties | 568,063 | - |
| Net cash provided by financing activities | <u>17,401,140</u> | <u>18,467,879</u> |
| Effect of exchange rate changes on cash | 833,883 | 545,730 |
| Net increase in cash and cash equivalents | <u>1,675,407</u> | <u>1,508,795</u> |
| Cash and cash equivalents, beginning of period | 1,438,651 | 559,390 |
| Cash and cash equivalents, end of period | <u>\$ 3,114,058</u> | <u>\$ 2,068,185</u> |
| Supplemental disclosure information: | | |

| | | |
|---|--------------|------------|
| Interest expense paid | \$ 1,045,237 | \$ 640,095 |
| Income taxes paid | \$ 975,084 | \$ 434,122 |
| Non cash investing and financing activities: | | |
| Exchange of investment for equipment (Note 5) | \$ - | \$ - |

NIVS IntelliMedia Technology Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In US Dollars)

| | <u>September 30,</u> <u>2008</u> | <u>December 31,</u> <u>2007</u> |
|--|-------------------------------------|------------------------------------|
| | (Unaudited) | |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 3,114,058 | \$ 1,438,651 |
| Short-term investment, marketable securities | 10,736 | 10,061 |
| Trade receivables, net (Note 3) | 20,971,383 | 4,510,833 |
| Land purchase price overpayment | - | - |
| Interest receivables (Note 6) | 393,919 | - |
| Inventories, net (Note 5) | 6,847,852 | 17,347,370 |
| Restricted cash (Note 12) | 4,318,165 | 1,983,247 |
| Prepaid expenses and deposits | 2,587,701 | 18,585 |
| Total current assets | <u>38,243,814</u> | <u>25,308,747</u> |
| Due from related parties (Note 6) | 7,619,895 | 2,213,370 |
| Property and equipments, net (Note 7) | 54,276,881 | 46,624,502 |
| Advances to suppliers (Note 4) | 23,975,026 | 14,391,650 |
| Intangible assets, net (Note 8) | 2,355,195 | 2,228,974 |
| Total Assets | <u>\$ 126,470,811</u> | <u>\$ 90,767,243</u> |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Accounts payable - trade | \$ 8,428,310 | \$ 14,560,824 |
| Due to related parties (Note 6) | 568,063 | - |
| Customer deposit (Note 9) | 3,134,519 | 2,454,761 |
| Accrued liabilities and other payable | 1,017,163 | 490,142 |
| Various taxes payable | 983,673 | 187,711 |
| Short-term loans (Note 10) | 36,118,646 | 28,645,571 |
| Current portion of long-term bank loan payable (Note 11) | - | 4,455,656 |
| Wages payable | 371,183 | 608,222 |
| Bank notes payable (Note 12) | 19,414,388 | 6,399,693 |
| Corporate tax payable | 2,330,045 | 1,725,765 |
| Total current liabilities | <u>72,365,990</u> | <u>59,528,345</u> |

| | | |
|---|-----------------------|----------------------|
| Due to shareholder (Note 13) | 9,133,637 | 11,008,770 |
| Total liabilities | 81,499,627 | 70,537,115 |
| Minority interest | 1,040,001 | 626,346 |
| Shareholders' Equity | | |
| Preferred stock, \$0.0001 par value, 10,000,000 shares authorized, 0 shares outstanding at September 30, 2008 and December 31, 2007 (Note 1) | - | - |
| Common stock, \$0.0001 par value, 100,000,000 shares authorized, 36,855,714 and 27,546,667 shares issued and outstanding at September 30, 2008 (unaudited) and December 31, 2007, respectively (Note 1) | 3,686 | 2,755 |
| Additional paid-in capital | 12,205,681 | 755,803 |
| Accumulated other comprehensive income | 3,702,406 | 2,122,612 |
| Statutory surplus reserve fund (Note 15) | 1,278,764 | 1,278,764 |
| Retained earnings (unrestricted) | 26,740,646 | 15,443,848 |
| Total Shareholders' Equity | 43,931,183 | 19,603,782 |
| Total Liabilities and Shareholders' Equity | \$ 126,470,811 | \$ 90,767,243 |

RISKS

-Geo-Political risk. The company is incorporated in Delaware, however the company is based in China and their business operations are primarily conducted in China.

-Though the company's net income and EPS have recently been generally consistently positive, their ocf has varied widely, and rapidly, between positive and negative. The company has recently had very large account receivables, advances to suppliers and accounts payable and accrued liabilities. The company's Q3 2008 accounts receivable were \$16 million, with their current total accounts receivable balance at \$21 million exiting their September quarter. Their Q3 advances to suppliers decreased by \$4.2 million but currently are a total of \$24 million. Their Q3 accounts payable item was approx. \$15.4 million, with the total amount exiting their Sept. quarter at \$8.4 million. These amounts are all deductions from (or additions to) the company's operating cash flow.

-Extremely high debt levels. The company's total debt is currently approx. \$64.66 million, which is also exclusive of approximately \$18.17 million in additional liabilities. This equates to a current debt/equity level of approx. 178% and a debt/total capitalization level of approx. 64%. We would also note however that post the company's public offering many figures will be adjusted, the company's debt level will decrease by approx. \$7.8 mil. due to an exchange for stock, and the company's cash level will rise by approx. \$1.2-\$1.4 million due to the proceeds from the offering. Post-offering, the debt/equity level should be approximately 125% and the debt/total capitalization level should be approximately 55%.

-Customer concentration. As of the first 9 months of 2008, 7 customers accounted for approximately 48% of the company's sales.

-The company competes with many companies that are more well-established, operate on a global basis and have greater financial resources.

-The company could pursue additional financings that would be dilutive to current shareholders.

Recommendation History: Pro-Active Research Group, a division of Pro-Active Capital Group, LLC, initiated coverage of NIVS IntelliMedia Technology Group, Inc. on March 16, 2009 with a Buy recommendation and the following price target:

L/T \$12.00

Rating System: Pro-Active Research has a three-tier rating system: Buy, Hold, Sell. Pro-Active Research also issues non-rated informational reports.

Coverage Universe: 100% Buy

DISCLAIMER

The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. We make no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of the report and are subject to change without notice. We have no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn.

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This report was created on March 16, 2009 from information publicly known as of March 16, 2009. Material developments may have occurred in the interim. Neither Pro-Active Research Group nor the analyst accepts any responsibility for any material change concerning the company since this report was prepared.

DISCLOSURES

Pro-Active Capital Group is expecting to receive 50,000 shares of stock and \$2,000/month (contracted for a minimum of three months) from NIVS IntelliMedia in return for a comprehensive set of services, including equity research provided by Pro-Active Research Group.

Pro-Active Capital, its representatives, and affiliated companies may beneficially own 1% or more of a class of common stock or other securities of NIVS IntelliMedia Technology Group, Inc. ("NIV"), and may also be short the common stock or other securities of NIVS IntelliMedia.

Analyst Certification

The analysts named in this report hereby certify that their views about the company are accurate and they have not and will not receive direct compensation in exchange for providing specific recommendations in this report.



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