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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Sonavox International Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**SONAVOX INTERNATIONAL HOLDINGS LIMITED**  
**上聲國際控股有限公司**  
(incorporated in the Cayman Islands with limited liability)  
(Stock Code: 8226)

**MAJOR AND CONNECTED TRANSACTION AND SPECIAL DEALS  
IN RELATION TO THE DISPOSALS OF  
INDIGO ENTERPRISES INC. AND TARAKI SERVICES COMPANY LIMITED**

Financial adviser to  
Sonavox International Holdings Limited



Independent financial adviser to  
the Independent Board Committee and the Independent Shareholders



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A letter from the Board is set out on pages 6 to 16 of this circular. A letter from the Independent Board Committee is set out on page 17 of this circular. A letter from Goldin Financial containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 33 of this circular.

A notice convening the EGM to be held at 10:00 a.m. on Monday, 23 August 2010 at 14th Floor, Kam Sang Building, 255-257 Des Voeux Road Central, Hong Kong is set out on pages 48 to 49 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the Company's branch share registrar in Hong Kong, Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong and in any event not later than 48 hours before the time of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least seven (7) days from the date of publication and on the website of the Company at <http://www.sonavox.com.hk>.

6 August 2010

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## CHARACTERISTICS OF GEM

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**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context otherwise requires:*

|                     |   |
|---------------------|---|
| “acting in concert” | has the meaning ascribed thereto in the Takeovers Code  |
| “Board”             | the board of Directors  |
| “Bondholders”       | holders of the Convertible Bonds  |
| “Business Day”      | a day (other than Saturday) on which banks in Hong Kong are generally open for business   |
| “BVI”               | British Virgin Islands  |
| “CB Offer”          | the unconditional mandatory cash offer to be made by Optima Capital on behalf of the Offeror for all the outstanding Convertible Bonds other than those already owned by the Offeror and parties acting in concert with it in accordance with the Takeovers Code  |
| “Company”           | Sonavox International Holdings Limited (stock code: 8226), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on GEM  |
| “Convertible Bonds” | the outstanding 8% redeemable convertible bonds due 2011 issued by the Company in the aggregate outstanding principal amount of US\$5,000,000 as at the Latest Practicable Date, which entitles the holders thereof to convert into new Shares of the Company at the prevailing conversion price of HK\$0.40 (subject to adjustments) |
| “Directors”         | directors of the Company  |
| “Disposals”         | collectively, the disposals of (i) the Indigo Sale Share and the Indigo Sale Loan; and (ii) the Taraki Sale Shares and the Taraki Sale Loan, pursuant to the Indigo Agreement and the Taraki Agreement respectively   |
| “EGM”               | the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the terms of the Indigo Agreement and the Taraki Agreement and the transactions respectively contemplated thereunder   |
| “Escrow Agent”      | Optima Capital, the escrow agent in respect of the cash components of the considerations for the Disposals  |

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## DEFINITIONS

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|---|---|
| “Escrow Letter”                                       | the escrow letter dated 16 July 2010 entered into between the Company, Newood, Taraki Inc., the Offeror and the Escrow Agent in relation to the deposit of the cash components of the considerations for the Disposals in the account of the Escrow Agent pursuant to the SP Agreement  |
| “Executive”   | the Executive Director of the Corporate Finance Division of the SFC or any delegates of the executive director  |
| “GEM”   | the Growth Enterprise Market of the Stock Exchange  |
| “GEM Listing Rules”                                   | the Rules Governing the Listing of Securities on GEM  |
| “Group”   | the Company and its subsidiaries  |
| “Guarantors”  | Mr. Shan and Mr. Yang   |
| “Hong Kong”   | Hong Kong Special Administrative Region of the PRC  |
| “Independent Board Committee”                         | the independent committee of the Board, excluding Mr. Yiu Chi Wah who is an independent non-executive Director and was involved in the negotiation of the Offers and the Disposals, comprising Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu, being independent non-executive Directors who have no direct or indirect interest in the Disposals, established to make recommendation to the Independent Shareholders in respect of the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder |
| “Independent Financial Adviser” or “Goldin Financial” | Goldin Financial Limited, a licensed corporation under the SFO permitted to engage in type 6 (advising on corporate finance) regulated activity, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Indigo Agreement and the Taraki Agreement and transactions contemplated thereunder   |
| “Independent Shareholders”                            | Shareholders other than the Offeror and parties acting in concert with it and any other Shareholders who are involved or interested in the Indigo Agreement or the Taraki Agreement or the transactions contemplated thereunder   |
| “Indigo”  | Indigo Enterprises Inc., a company incorporated in Samoa with limited liability, which is a wholly-owned subsidiary of the Company  |

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## DEFINITIONS

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|                           |   |
|---------------------------|---|
| “Indigo Agreement”        | the conditional agreement dated 12 July 2010 entered into between the Company and Newood in relation to the sale and purchase of the Indigo Sale Share and the Indigo Sale Loan   |
| “Indigo Group”            | Indigo and its subsidiary   |
| “Indigo Sale Share”       | 1 share of US\$1, being the entire issued share capital of Indigo   |
| “Indigo Sale Loan”        | all obligations, liabilities and debts owing or incurred by Indigo to the Company on or at any time prior to the completion of the Indigo Agreement whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on completion of the Indigo Agreement   |
| “Latest Practicable Date” | 3 August 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein   |
| “Mr. Chan”                | Mr. Chan Ping Yee, a party acting in concert with the Offeror   |
| “Mr. Shan”                | Mr. Shan Xiaochang, the sole beneficial owner and the sole director of the Offeror  |
| “Mr. Yang”                | Mr. Yang Ching Yau, an executive Director   |
| “Newood”                  | Newood Consultancy Limited, a company incorporated in the BVI with limited liability which is wholly owned by Silver Way Limited, the entire issued share capital of which is in turn owned by Deutsche Bank International Trust Co. (Cayman) Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang and Mr. Yang Tsu Ying, both of which are the executive Directors |
| “Offeror”                 | Fame Global Enterprises Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Shan  |
| “Offers”                  | collectively, the Share Offer, the CB Offer and the Option Offer  |
| “Offer Share(s)”          | Share(s) in respect of which the Share Offer is made, being Share(s) not already owned by the Offeror and parties acting in concert with it   |

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## DEFINITIONS

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|-------------------|--|
| “Optima Capital”  | Optima Capital Limited, a licensed corporation under the SFO permitted to engage in type 1 (dealings in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities, and the financial adviser to the Offeror in respect of the SP Agreement and the Offers |
| “Option(s)”       | the option(s) granted under the Share Option Scheme which are outstanding as at the Latest Practicable Date and entitle the holders thereof to subscribe for Option Share(s) at a subscription price of HK\$0.345 per Option Share   |
| “Optionholder(s)” | holder(s) of the Options   |
| “Option Offer”    | the unconditional mandatory cash offer to be made by Optima Capital on behalf of the Offeror for the cancellation of the Options in accordance with the Takeovers Code   |
| “Option Share(s)” | the new Share(s) which may fall to be issued upon the exercise by the Optionholders of the subscription rights attaching to the Options at a price of HK\$0.345 per Share  |
| “PRC”             | the People’s Republic of China, for the purposes of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan  |
| “SP Agreement”    | the sale and purchase agreement dated 12 July 2010 entered into among Newwood, the Offeror and the Guarantors in relation to the sale and purchase of the Sale Shares  |
| “SP Completion”   | completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the SP Agreement   |
| “Sale Shares”     | a total of 240,000,000 Shares acquired by the Offeror from Newwood pursuant to the terms and conditions of the SP Agreement  |
| “SFC”             | Securities and Futures Commission  |
| “SFO”             | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)  |
| “Share(s)”        | ordinary share(s) of HK\$0.01 each in the issued share capital of the Company  |
| “Shareholder(s)”  | holder(s) of the Shares  |

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## DEFINITIONS

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|                       |   |
|-----------------------|---|
| “Share Offer”         | the unconditional mandatory cash offer being made by Optima Capital on behalf of the Offeror for all the Shares other than those already owned by the Offeror and parties acting in concert with it in accordance with the Takeovers Code   |
| “Share Option Scheme” | the share option scheme of the Company adopted pursuant to an ordinary resolution of the Company passed on 8 July 2002  |
| “Stock Exchange”      | The Stock Exchange of Hong Kong Limited   |
| “Takeovers Code”      | the Hong Kong Code on Takeovers and Mergers   |
| “Taraki”              | Taraki Services Company Limited, a company incorporated in Hong Kong with limited liability, which is a wholly-owned subsidiary of the Company  |
| “Taraki Agreement”    | the conditional agreement dated 12 July 2010 entered into between Taraki Inc. and Newood in relation to the sale and purchase of the Taraki Sale Shares and the Taraki Sale Loan  |
| “Taraki Property”     | the property held by Taraki which situates at 14th Floor, Kam Sang Building, Nos. 255-257 Des Voeux Road Central, Hong Kong   |
| “Taraki Sale Shares”  | 2 shares of HK\$1.0 each, being the entire issued share capital of Taraki   |
| “Taraki Sale Loan”    | all obligations, liabilities and debts owing or incurred by Taraki to Taraki Inc. on or at any time prior to the completion of the Taraki Agreement whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on completion of the Taraki Agreement |
| “HK\$”                | Hong Kong dollars, the lawful currency of Hong Kong   |
| “US\$”                | US dollars, the lawful currency of United States of America   |
| “%”                   | per cent.   |

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LETTER FROM THE BOARD

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**SONAVOX INTERNATIONAL HOLDINGS LIMITED**

**上聲國際控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8226)

*Executive Directors:*

Mr. Yang Tsu Ying (*Chairman*)

Mr. Yang Ching Yau (*Chief Executive Officer*)

*Independent non-executive Directors:*

Mr. Yiu Chi Wah

Mr. Fan Chi Fai, Paul

Mr. Lee Fang Yu

*Registered office:*

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

*Principal place of business*

*in Hong Kong:*

14th Floor

Kam Sang Building

255-257 Des Voeux Road Central

Hong Kong

6 August 2010

*To the Shareholders and,  
for information purpose only, the Bondholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION AND SPECIAL DEALS  
IN RELATION TO THE DISPOSALS OF  
INDIGO ENTERPRISES INC. AND TARAKI SERVICES COMPANY LIMITED**

**1. INTRODUCTION**

Reference is made to the joint announcement issued by the Company and the Offeror dated 16 July 2010 in relation to, among other things, the Offers and the Disposals.

On 12 July 2010, the Offeror, Newwood and the Guarantors entered into the SP Agreement, pursuant to which Newwood agreed to sell and the Offeror agreed to acquire 240,000,000 Shares, representing approximately 73.83% of the entire issued share capital of the Company at a consideration of HK\$96,000,000 (equivalent to HK\$0.4 per Sale Share). The SP Completion took place on 16 July 2010.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Offeror is interested in 240,000,000 Shares, representing approximately 73.83% of the entire issued share capital of the Company. Save for the aforesaid, the Offeror and parties acting in concert with it do not have any other interests in any securities of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make unconditional mandatory general offers in cash for all the issued Shares, the outstanding Convertible Bonds and the outstanding Options other than those already owned by the Offeror and parties acting in concert with it. For further details regarding the Offers and the information of the Offeror, please refer to the joint announcement issued by the Company and the Offeror dated 16 July 2010 and the offer document posted by the Offeror dated 6 August 2010 containing, among other things, the terms of the Offers, together with the form(s) of acceptance.

On 12 July 2010, the Indigo Agreement and the Taraki Agreement were entered into in respect of the Disposals.

Pursuant to the Indigo Agreement, the Company agreed to sell and Newood agreed to purchase the Indigo Sale Share and the rights, title, benefits and interests of the Company in, the Indigo Sale Loan.

Pursuant to the Taraki Agreement, Taraki Inc. agreed to sell and Newood agreed to purchase the Taraki Sale Shares and the rights, title, benefits and interests of Taraki Inc. in, the Taraki Sale Loan.

As one of the applicable percentage ratios as defined under Rule 19.07 of the GEM Listing Rules in respect of the Disposals is more than 25% but less than 75%, the Disposals constitute major transaction for the Company under Chapter 19 of the GEM Listing Rules. As at the date of the Indigo Agreement and the Taraki Agreement, Newood was interested in approximately 73.83% of the issued share capital of the Company and is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the Disposals also constitute connected transaction for the Company under Chapter 20 of the GEM Listing Rules and the Disposals are therefore subject to the reporting, announcement and Independent Shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

Furthermore, the Disposals constitute special deals for the Company under Note 4 to Rule 25 of the Takeovers Code and therefore require the consent of the Executive. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating that in his opinion the respective terms of the Disposals are fair and reasonable; and (ii) the approval of the Disposals by the Independent Shareholders by way of a poll at the EGM. Shareholders including (i) the Offeror and parties acting in concert with it; and (ii) any Shareholders who are involved or interested in the Indigo Agreement or the Taraki Agreement or the transactions respectively contemplated thereunder shall abstain from voting on the proposed resolutions in respect of the Indigo Agreement or the Taraki Agreement or the transactions respectively contemplated thereunder at the EGM.

The purpose of this circular is to provide you with, among other things, (i) further details of the Disposals; (ii) the respective letters of advice from the Independent Board Committee and the Independent Financial Adviser in respect of the Indigo Agreement and the Taraki Agreement and transactions respectively contemplated thereunder; and (iii) a notice convening the EGM.

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## LETTER FROM THE BOARD

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### 2. THE DISPOSALS

On 12 July 2010, the Indigo Agreement and the Taraki Agreement were entered into in respect of the Disposals.

#### **The Indigo Agreement**

##### *Date*

12 July 2010

##### *Parties*

Purchaser: Newood

Vendor: the Company

##### *Subject matter of the Indigo Agreement*

Pursuant to the Indigo Agreement, the Company agreed to sell and Newood agreed to purchase the Indigo Sale Share and the rights, title, benefits and interests of the Company in, the Indigo Sale Loan.

The Company shall not be obliged to sell any of the Indigo Sale Share or the Indigo Sale Loan unless the sale and purchase of all the Indigo Sale Share and the Indigo Sale Loan is completed simultaneously.

##### *Consideration*

The aggregate consideration for the Indigo Sale Share and the Indigo Sale Loan is HK\$43,753,187.50, which was agreed between the Company and Newood after arm's length negotiations with reference to the consolidated net liability position of Indigo as at 31 December 2009 and the amount of the Indigo Sale Loan, and shall be paid in the following manner:

- (i) HK\$25,000,000 in cash shall be deposited with the Escrow Agent upon the SP Completion in accordance with the terms of the Escrow Letter. The Escrow Agent shall upon the instruction of the Offeror release from escrow the amount in escrow and pay the same to the Company in accordance with the Escrow Letter after completion of the sale and purchase of the Indigo Sale Share and the Indigo Sale Loan; and
- (ii) HK\$18,753,187.50 shall be set-off against the debt owing by the Company to Newood, which amounts to HK\$18,753,187.50 as at the date of the Indigo Agreement, at completion of the sale and purchase of the Indigo Sale Share and the Indigo Sale Loan, pursuant to a deed of set-off to be executed by Newood and the Company upon completion.

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## LETTER FROM THE BOARD

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Pursuant to the terms of the Escrow Letter, it is expected that the Escrow Agent shall upon instruction of the Offeror release the HK\$25,000,000 to the Company directly within two Business Days after completion of the sale and purchase of the Indigo Sale Share and the Indigo Sale Loan and receipt of relevant notification from the Offeror in accordance with other terms of the Escrow Letter.

### *Conditions precedent of the Indigo Agreement*

The Indigo Agreement is conditional upon the fulfillment of the following conditions:

- (i) if necessary, the passing by the Independent Shareholders at an extraordinary general meeting of the Company to be convened and held of the necessary resolutions to approve the Indigo Agreement and the transactions contemplated thereunder;
- (ii) the consent of the Executive in relation to the Indigo Agreement and the transactions contemplated thereunder as a “special deal” under Rule 25 of the Takeovers Code having been obtained and not revoked prior to completion of the Indigo Agreement, and any conditions attaching to such consent being fulfilled;
- (iii) all necessary consents and approvals required to be obtained on the part of Newood in respect of the Indigo Agreement and the transactions contemplated thereby having been obtained;
- (iv) if necessary, the requisite waivers, consents and approvals from any relevant governmental or regulatory authorities in connection with the transactions contemplated by the Indigo Agreement (including, without limitation, the change in control of Indigo upon completion of the Indigo Agreement) having been obtained; and
- (v) completion of the SP Agreement in accordance with its terms and conditions.

All conditions set out above are incapable of being waived by the parties thereto. If the conditions set out above have not been satisfied on or before 4:00 p.m. on 12 October 2010, or such other date as Newood and the Company may agree, the Indigo Agreement shall cease and determine (save and except for the clauses as stipulated in the Indigo Agreement) and thereafter neither party shall have any obligations and liabilities towards each other. As at the Latest Practicable Date, condition numbered (v) has been fulfilled.

### *Completion*

Completion shall take place on the date falling two Business Days after the fulfillment of the conditions precedent of the Indigo Agreement (or such other date as the parties thereto may mutually agree). Upon completion of the Indigo Agreement, the Company will not hold any interest in the Indigo Group and members of the Indigo Group will cease to be subsidiaries of the Company.

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## LETTER FROM THE BOARD

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### **The Taraki Agreement**

#### *Date*

12 July 2010

#### *Parties*

Purchaser: Newood

Vendor: Taraki Inc., a wholly-owned subsidiary of the Company

#### *Subject matter of the Taraki Agreement*

Pursuant to the Taraki Agreement, Taraki Inc. agreed to sell and Newood agreed to purchase the Taraki Sale Shares and the rights, title, benefits and interests of Taraki Inc. in, the Taraki Sale Loan.

Taraki Inc. shall not be obliged to sell any of the Taraki Sale Shares or the Taraki Sale Loan unless the sale and purchase of all the Taraki Sale Shares and the Taraki Sale Loan is completed simultaneously.

#### *Consideration*

The aggregate consideration for the Taraki Sale Shares and the Taraki Sale Loan is HK\$8,000,000, which was agreed between Taraki Inc. and Newood after arm's length negotiations with reference to the audited net asset value of Taraki as at 31 December 2009 of approximately HK\$1 million and the amount of the Taraki Sale Loan of approximately HK\$5.2 million. The Escrow Agent shall upon the instruction of the Offeror release from escrow an amount equivalent to the consideration and pay the same to Taraki Inc. in accordance with the Escrow Letter after completion of the sale and purchase of the Taraki Sale Shares and the Taraki Sale Loan.

Pursuant to the terms of the Escrow Letter, it is expected that the Escrow Agent shall upon instruction of the Offeror release the HK\$8,000,000 to Taraki Inc. directly within two Business Days after completion of the sale and purchase of the Taraki Sale Shares and the Taraki Sale Loan and receipt of relevant notification from the Offeror in accordance with other terms of the Escrow Letter.

#### *Conditions precedent of the Taraki Agreement*

The Taraki Agreement is conditional upon the fulfillment of the following conditions:

- (i) if necessary, the passing by the Independent Shareholders at an extraordinary general meeting of the Company to be convened and held of the necessary resolutions to approve the Taraki Agreement and the transactions contemplated thereunder;

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## LETTER FROM THE BOARD

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- (ii) the consent of the Executive in relation to the Taraki Agreement and the transactions contemplated thereunder as a “special deal” under Rule 25 of the Takeovers Code having been obtained and not revoked prior to completion of the Taraki Agreement, and any conditions attaching to such consent being fulfilled;
- (iii) all necessary consents and approvals required to be obtained on the part of Newood in respect of the Taraki Agreement and the transactions contemplated thereby having been obtained;
- (iv) if necessary, the requisite waivers, consents and approvals from any relevant governmental or regulatory authorities in connection with the transactions contemplated by the Taraki Agreement (including, without limitation, the change in control of Taraki upon completion of the Taraki Agreement) having been obtained; and
- (v) completion of the SP Agreement in accordance with its terms and conditions.

All conditions set out above are incapable of being waived by the parties thereto. If the conditions set out above have not been satisfied on or before 4:00 p.m. on 12 October 2010, or such other date as Newood and Taraki Inc. may agree, the Taraki Agreement shall cease and determine (save and except for the clauses as stipulated in the Taraki Agreement) and thereafter neither party shall have any obligations and liabilities towards each other. As at the Latest Practicable Date, condition numbered (v) has been fulfilled.

### *Completion*

Completion shall take place on the date falling two Business Days after the fulfillment of the conditions precedent of the Taraki Agreement (or such other date as the parties thereto may mutually agree). Upon completion of the Taraki Agreement, the Company will not hold any interest in Taraki and Taraki will cease to be a subsidiary of the Company.

### **Information on Indigo**

Indigo, a company incorporated in Samoa with limited liability, is an investment holding company wholly-owned by the Company. Based in the North America, the Indigo Group is principally engaged in the provision of design, development and marketing of home and automotive audio products in the North American, European and Asian markets.

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## LETTER FROM THE BOARD

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Set out below are the audited financial results of the Indigo Group for the two years ended 31 December 2009:

|                      | <b>For the year<br/>ended 31 December</b> |                 |
|----------------------|---|-----------------|
|                      | <b>2009</b>                               | <b>2008</b>     |
|                      | <i>HK\$'000</i>                           | <i>HK\$'000</i> |
| Revenue              | 63,833                                    | 94,259          |
| Loss before taxation | 6,962                                     | 3,553           |
| Loss after taxation  | 6,962                                     | 3,553           |

According to the management accounts of the Indigo Group for the six months ended 30 June 2010, the unaudited consolidated net liabilities of Indigo as at 30 June 2010 was approximately HK\$5.38 million. The Company is expected to recognise a gain for the disposal of the Indigo Sale Share and Indigo Sale Loan of approximately HK\$7.2 million based on the difference between the consideration of the disposal of the Indigo Sale Share and the Indigo Sale Loan and the aggregate of the consolidated net liabilities of Indigo and the amount of the Indigo Sale Loan of approximately HK\$41.9 million as at 30 June 2010. The Directors confirm that there will not be material difference in the amount of the Indigo Sale Loan at completion of the Indigo Agreement.

### **Information on Taraki**

Taraki, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of Taraki Inc., which in turn is a wholly-owned subsidiary of the Company, and is principally engaged in the provision of management services to members of the Group, and holding of the Taraki Property. Taraki has no major assets or investment other than its holding of the Taraki Property, which had a market value of HK\$8.3 million as at 30 June 2010 based on the property valuation report prepared by BMI Appraisals Limited, an independent valuer engaged by the Company, details of the property valuation report can be referred to in Appendix II to this circular.

Set out below are the audited financial results of Taraki for the two years ended 31 December 2009:

|                      | <b>For the year<br/>ended 31 December</b> |                 |
|----------------------|---|-----------------|
|                      | <b>2009</b>                               | <b>2008</b>     |
|                      | <i>HK\$'000</i>                           | <i>HK\$'000</i> |
| Revenue              | –   | –               |
| Loss before taxation | 257                                       | 169             |
| Loss after taxation  | 257                                       | 169             |

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## LETTER FROM THE BOARD

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According to the management accounts of Taraki for the six months ended 30 June 2010, the unaudited net assets value of Taraki as at 30 June 2010 was approximately HK\$2.33 million. The Company is expected to recognise a gain for the disposal of the Taraki Sale Shares and the Taraki Sale Loan of approximately HK\$0.4 million based on the difference between the consideration of the disposal of the Taraki Sale Share and the Taraki Sale Loan and the aggregate of the net asset value of Taraki and the amount of the Taraki Sale Loan of approximately HK\$5.23 million as at 30 June 2010. The Directors confirm that there will not be material difference in the amount of the Taraki Sale Loan at completion of the Taraki Agreement.

### **Financial effects of the Disposals**

After completion of the Disposals, Taraki and the Indigo Group will cease to be subsidiaries of the Group and the results, assets and liabilities of the Indigo Group and Taraki will no longer be consolidated into the financial statements of the Group. As disclosed above, it is estimated that the Company will recognise a gain of approximately HK\$7.2 million as a result of the disposal of the Indigo Sale Share and the Indigo Sale Loan and a gain of approximately HK\$0.4 million as a result of the disposal of the Taraki Sale Shares and the Taraki Sale Loan. It is estimated that the total assets of the Group will decrease by approximately HK\$27.9 million and the total liabilities of the Group will decrease by approximately HK\$35.5 million as a result of the Disposals. After completion of the Disposals, the adverse impact from the loss making performance of the Indigo Group to the earnings of the Group will come to an end.

### **Reasons for the Disposals**

The operation of the Group in the North America is conducted only through the Indigo Group. As reflected in the segment reporting disclosed in the annual report of the Company for the year ended 31 December 2009, the results of the operation of the Group in the North American segment (the segmentation of which is based on the geographical location of the relevant operations) was unsatisfactory in the past, which has reported loss for each of the two years ended 31 December 2009. The entering of the Indigo Agreement represents an opportunity for the Group to cease the loss making operation of the said segment and spare resources for its other business operations at a reasonable price.

The head office and principal place of business of the Company in Hong Kong is situated at the Taraki Property. It is the intention of the Company to move the head office and principal place of business in Hong Kong to other location which may better suit the scale and costs of operation of the Company in Hong Kong. Accordingly, it makes commercial sense for the Company not to retain Taraki and realise the investment in the Taraki Property for cash for the Company's other business operations.

Having taken into account the above reasons and given that the Company will benefit from an increased cash balance by the amount of the cash portion of the proceeds from the Disposals and a reduction of liability as a result of the offsetting of the debt owing by the Company to Newood pursuant to the Indigo Agreement, the Directors consider the Disposals to be fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Company intends to apply the proceeds from the Disposals for repayment of interest accrued and to be accrued under the Convertible Bonds and as general working capital.

### **Information on the Group**

The principal activity of the Company is investment holding with its subsidiaries principally engaged in the manufacture and sale of loudspeaker systems to customers in the PRC and overseas market.

### **Information on Newood**

Newood, a company principally engaged in investment holdings and incorporated in the BVI with limited liability which is wholly owned by Silver Way Limited, the entire issued share capital of which is in turn owned by Deutsche Bank International Trust Co. (Cayman) Limited as the trustee of The SEI Trust, and the discretionary objects of which are Mr. Yang and Mr. Yang Tsu Ying, both being executive Directors.

### **3. IMPLICATIONS OF THE DISPOSALS UNDER THE GEM LISTING RULES AND THE TAKEOVERS CODE**

#### **Major and connected transaction**

As one of the applicable percentage ratios as defined under Rule 19.07 of the GEM Listing Rules in respect of the Disposals is more than 25% but less than 75%, the Disposals constitute major transaction for the Company under Chapter 19 of the GEM Listing Rules. As at the date of the Indigo Agreement and the Taraki Agreement, Newood was interested in approximately 73.83% of the entire issued share capital of the Company and is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the Disposals also constitute connected transaction for the Company under Chapter 20 of the GEM Listing Rules and the Disposals are therefore subject to the reporting, announcement and Independent Shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

#### **Special deals**

The Disposals constitute special deals for the Company under Note 4 to Rule 25 of the Takeovers Code and therefore requires the consent of the Executive. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating that in his opinion the respective terms of the Disposals are fair and reasonable; and (ii) the approval of the Disposals by the Independent Shareholders by way of a poll at the EGM. Shareholders including (i) the Offeror and parties acting in concert with it; and (ii) any Shareholders who are involved in or interested in, the Indigo Agreement or the Taraki Agreement or the transactions contemplated thereunder shall abstain from voting on the proposed resolutions in respect of the Indigo Agreement or the Taraki Agreement or the transactions contemplated thereunder at the EGM.

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## LETTER FROM THE BOARD

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The Company has made an application to the Executive for consents under Rule 25 of the Takeovers Code in relation to the Disposals. The Independent Financial Adviser has stated in the letter from Goldin Financial contained in this circular that the respective terms of the Disposals, in its opinion, are fair and reasonable.

#### **4. EGM**

A notice convening the EGM to be held at 10:00 a.m., on Monday, 23 August 2010 at 14th Floor, Kam Sang Building, 255-257 Des Voeux Road Central, Hong Kong is set out on pages 48 to 49 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions in relation to the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder. Shareholders including (i) the Offeror and parties acting in concert with it; and (ii) any Shareholders who are involved in or interested in, the Indigo Agreement or the Taraki Agreement or the transactions contemplated thereunder, are required to abstain from voting with respect to the resolutions for approving the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder.

The ordinary resolutions to be proposed at the EGM will be determined by way of poll by the Independent Shareholders. The Offeror and parties acting in concert with it held 240,000,000 issued Shares and controlled the voting rights of such Shares, representing approximately 73.83% of the entire issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting at the EGM in respect of the ordinary resolutions.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same as soon as possible to the Company's branch share registrar in Hong Kong, Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong and in any event not less than 48 hours before the time scheduled for the holding of the EGM or any adjournments thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournments thereof should you so desire.

#### **5. RECOMMENDATION**

The Independent Board Committee, excluding Mr. Yiu Chi Wah who is an independent non-executive Director and was involved in the negotiation of the Offers and the Disposals, comprising Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu, being independent non-executive Directors who have no direct or indirect interest in the Disposals, has been established to make recommendation to the Independent Shareholders in respect of the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Indigo Agreement and the Taraki Agreement and transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser on the Indigo Agreement and the Taraki Agreement, is of the view that the transactions contemplated under the Indigo Agreement and the Taraki Agreement are on normal commercial terms, the terms of the Indigo Agreement and the Taraki Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Mr. Yang and Mr. Yang Tsu Ying, both being executive Directors, directors of Newood, and the discretionary objects of the SEI Trust, the trustee of which is Deutsche Bank International Trust Co. (Cayman) Limited which wholly own Newood through Silver Way Limited, and Mr. Yiu Chi Wah, who was involved in the negotiation of the Offers and the Disposals, have abstained from voting on the board resolution for approving the Disposals.

Having taken into account the information contained in this circular and the reasons for and benefits to the Group as a result of the Disposals as set out in the paragraph headed “Reasons for the Disposals” under the section headed “The Disposals” in the letter from the Board of this circular, the Directors consider the Disposals to be fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions set out in the notice of EGM enclosed to this circular.

### GENERAL

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Goldin Financial and the additional information set out in the appendices to this circular and the notice of EGM.

Yours faithfully,  
By order of the Board  
**Sonavox International Holdings Limited**  
**Yang Tsu Ying**  
*Chairman*

  
**SONAVOX INTERNATIONAL HOLDINGS LIMITED**  
**上聲國際控股有限公司**  
*(incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 8226)

6 August 2010

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION AND SPECIAL DEALS  
IN RELATION TO THE DISPOSALS OF  
INDIGO ENTERPRISES INC. AND TARAKI SERVICES COMPANY LIMITED**

We refer to the circular dated 6 August 2010 issued by the Company (the “Circular”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Indigo Agreement and the Taraki Agreement which require approval by the Independent Shareholders and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the transactions contemplated under the Indigo Agreement and the Taraki Agreement and to recommend how the Independent Shareholders should vote at the EGM. The Independent Financial Adviser has been appointed to advise you and the Independent Board Committee in relation to the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 16 of the Circular, and the letter from Goldin Financial to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder, as set out on pages 18 to 33 of the Circular.

Having taken into account of the principal factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we consider that transactions contemplated under the Indigo Agreement and the Taraki Agreement are on normal commercial terms, the terms of the Indigo Agreement and the Taraki Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder.

Yours faithfully,  
Independent Board Committee

**Fan Chi Fai, Paul**  
*Independent non-executive  
Director*

**Lee Fang Yu**  
*Independent non-executive  
Director*

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## LETTER FROM GOLDIN FINANCIAL

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*The following is the full text of the letter from Goldin Financial setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.*



**高銀融資有限公司**  
GOLDIN FINANCIAL LIMITED

**Goldin Financial Limited**  
23rd Floor  
Two International Finance Centre  
8 Finance Street  
Central,  
Hong Kong

6 August 2010

*To: the Independent Board Committee and the Independent Shareholders of  
Sonavox International Holdings Limited*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION AND SPECIAL DEALS  
IN RELATION TO  
THE DISPOSALS OF INDIGO ENTERPRISES INC. AND  
TARAKI SERVICES COMPANY LIMITED (THE “DISPOSALS”)**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee (the “Independent Board Committee”) and the independent shareholders (the “Independent Shareholders”) of Sonavox International Holdings Limited (the “Company”) in relation to the disposals of Indigo Enterprises Inc. (“Indigo”) and Taraki Services Company Limited (“Taraki”), details of which are set out in the Letter from the Board contained in this circular dated 6 August 2010 issued by the Company (the “Circular”), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 16 July 2010, the Company and the Offeror jointly announced that the Offeror, Newood and the Guarantors entered into the SP Agreement on 12 July 2010, pursuant to which Newood agreed to sell and the Offeror agreed to acquire 240,000,000 Shares, representing approximately 73.83% of the entire issued share capital of the Company. The consideration for the Sale Shares of HK\$96,000,000 (equivalent to HK\$0.4 per Sale Share) was agreed between the Offeror and Newood after arm’s length negotiations with reference to the prevailing market prices of the Shares. The SP Completion took place on 16 July 2010. As at the Latest Practicable Date, the Offeror was interested in 240,000,000 Shares, representing approximately 73.83% of the entire issued share capital of the Company. Save for the aforesaid, the Offeror and parties acting in concert with it did not have any other interests in the Company as at the Latest Practicable Date. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make mandatory unconditional general offers in cash for all the issued Shares, the outstanding Convertible Bonds and outstanding Options other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

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## LETTER FROM GOLDIN FINANCIAL

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In addition, on 12 July 2010, the Company and Newood entered into the Indigo Agreement and Taraki Inc. and Newood entered into the Taraki Agreement in respect of the Disposals. Pursuant to the Indigo Agreement, the Company agreed to sell and Newood agreed to purchase the Indigo Sale Share and the rights, title, benefits and interests of the Company in, the Indigo Sale Loan. The aggregate consideration for the Indigo Sale Share and the Indigo Sale Loan is approximately HK\$43.75 million. Pursuant to the Taraki Agreement, Taraki Inc. agreed to sell and Newood agreed to purchase the Taraki Sale Shares and the rights, title, benefits and interests of Taraki Inc. in, the Taraki Sale Loan. The aggregate consideration for the Taraki Sale Shares and the Taraki Sale Loan is HK\$8 million.

As one of the applicable percentage ratios as defined under Rule 19.07 of the GEM Listing Rules in respect of the Disposals is more than 25% but less than 75%, the Disposals constitute a major transaction for the Company under Chapter 19 of the GEM Listing Rules. As at the date of the Indigo Agreement and the Taraki Agreement, Newood was interested in approximately 73.83% of the issued share capital of the Company and is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the Disposals also constitute a connected transaction for the Company under Chapter 20 of the GEM Listing Rules and the Disposals are therefore subject to the reporting, announcement and Independent Shareholders' approval requirements of Chapter 20 of the GEM Listing Rules. The Disposals also constitute special deals for the Company under Note 4 to Rule 25 of the Takeovers Code and therefore require the consent of the Executive. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating that in his opinion the respective terms of the Disposals are fair and reasonable; and (ii) the approval of the Disposals by the Independent Shareholders by way of a poll at the EGM. The Offeror and parties acting in concert with it and any Shareholders who are involved in or interested in the Indigo Agreement or the Taraki Agreement or the transactions contemplated thereunder shall abstain from voting on the proposed resolutions in respect of the Indigo Agreement or the Taraki Agreement or the transactions contemplated thereunder at the EGM. The Company has made an application to the Executive for consents under Rule 25 of the Takeovers Code in relation to the Disposals.

### **THE INDEPENDENT BOARD COMMITTEE**

The Company has three independent non-executive Directors, namely Mr. Yiu Chi Wah, Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu. As Mr. Yiu Chi Wah was involved in the negotiation of the Offers and the Disposals, the Directors consider that it would be more appropriate that Mr. Yiu Chi Wah should not sit on the Independent Board Committee. Accordingly, the Independent Board Committee comprising the remaining two independent non-executive Directors, namely Mr. Fan Chi Fai, Paul and Mr. Lee Fang Yu, has been established to advise and give recommendation to the Independent Shareholders, in respect of the Indigo Agreement and the Taraki Agreement and transactions contemplated thereunder.

We, Goldin Financial, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder whether the Independent Shareholders should vote in favour of the resolutions to be proposed at the EGM to approve the Disposals.

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## LETTER FROM GOLDIN FINANCIAL

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### **BASIS OF OUR ADVICE**

In formulating our opinion and recommendations, we have reviewed, inter alia, the announcement jointly issued by the Company and the Offeror dated 16 July 2010, the Indigo Agreement and the Taraki Agreement in relation to the Disposals, the annual reports of the Company for the three financial years ended 31 December 2007, 2008 and 2009 and the first quarterly report of the Company for the three months ended 31 March 2010. We have also reviewed certain information provided by the management of the Company relating to the operation, financial condition and prospect of the Group. We have reviewed the opinion and valuation relevant to the Taraki Property provided by BMI Appraisals Limited (the “Valuer”), including reviewing the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the valuation report, opinion or statement). Based on the foregoing, we consider that we have taken all the reasonable steps, which are applicable to the Disposals, as referred to and required under Rule 17.92(2)(b) of the GEM Listing Rules (including its annexed notes) in forming our opinion. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our recommendation which are in compliance with Rule 17.92 of the GEM Listing Rules. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the financials, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Circular, the omission of which would make any statement herein or in this Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and reasons for, the Disposals and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

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## LETTER FROM GOLDIN FINANCIAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

#### 1. Background information of the Group

The Company is principally engaged in the manufacture and sale of loudspeaker systems to customers in the PRC and overseas market. The Group currently offers a broad range of products including, among others, loudspeaker systems for automobiles, amplifiers and loudspeaker systems for home theatre. Set out below is the audited financial information of the Group for the three years ended 31 December 2007, 2008 and 2009 and the unaudited financial information of the Group for the three months ended 31 March 2009 and 2010:

**Table 1: Financial highlights of the Group**

|   | <b>For the year ended 31 December</b> |                 |                          | <b>For the three months</b> |                 |
|---|---------------------------------------|-----------------|--------------------------|-----------------------------|-----------------|
|   | <b>2007</b>                           | <b>2008</b>     | <b>2009</b>              | <b>2009</b>                 | <b>2010</b>     |
|   | <i>HK\$'000</i>                       | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i>             | <i>HK\$'000</i> |
|   | (Restated)                            | (Restated)      |                          |                             |                 |
| Revenue   | 429,972                               | 389,131         | 434,766                  | 67,206                      | 135,003         |
| Profit/(Loss) attributable to owners of the Company | (1,734)                               | (14,420)        | (3,213)                  | (4,548)                     | 1,977           |
|   |                                       |                 | <b>As at 31 December</b> |                             |                 |
|   |                                       | <b>2007</b>     | <b>2008</b>              | <b>2009</b>                 |                 |
|   |                                       | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i>             |                 |
|   |                                       | (Restated)      | (Restated)               |                             |                 |
| Non-current assets                                  |                                       | 219,344         | 234,879                  | 238,310                     |                 |
| Current assets                                      |                                       | 205,630         | 186,780                  | 295,756                     |                 |
| Current (liabilities)                               |                                       | (210,830)       | (216,135)                | (298,687)                   |                 |
| Net current (liabilities)                           |                                       | (5,200)         | (29,355)                 | (2,931)                     |                 |
| Net assets  |                                       | 166,937         | 161,355                  | 181,312                     |                 |

For the year ended 31 December 2007, the turnover of the Group increased from approximately HK\$369.30 million to approximately HK\$429.97 million, representing an increase of approximately 16.43%. As advised by the management of the Company, the increase in turnover was mainly due to the growth in the European and PRC markets. Loss attributable to the owners of the Company was

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## LETTER FROM GOLDIN FINANCIAL

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approximately HK\$1.73 million, as opposed to the profit attributable to the owners of the Company of approximately HK\$3.60 million in the previous financial year. As advised by the management of the Company, such loss was mainly resulted from (i) the increase in administrative expenses due to the commencement of operation of subsidiaries in the PRC and Germany and the increase in salary level of the staff hired for the new subsidiaries; and (ii) the increase in finance costs due to additional bank loans obtained in the PRC for expansion of production capabilities and the increase in market interest rate. As at 31 December 2007, the audited net current liabilities and net assets of the Group amounted to approximately HK\$5.20 million and approximately HK\$166.94 million, respectively. The increase in the current liabilities of the Group was due to the increase in the bank borrowings.

For the year ended 31 December 2008, the turnover of the Group dropped from approximately HK\$429.97 million to approximately HK\$389.13 million, representing a decrease of approximately 9.50%. As advised by the management of the Company, such decrease was mainly resulted from the reduction in sales generated from the loudspeaker systems for home theatre due to the cessation of non-profitable business with some customers. Loss attributable to the owners of the Company increased from approximately HK\$5.70 million to approximately HK\$14.42 million. As advised by the management of the Company, such increase in loss was mainly attributable to (i) the increase in total expenses as a result of the commencement of operations of subsidiaries in the PRC and Germany in 2007; and (ii) the increase in finance costs as a result of additional bank loans obtained in the PRC for expansion in production capabilities. As at 31 December 2008, the audited net current liabilities and net assets of the Group amounted to approximately HK\$29.36 million and approximately HK\$161.36 million, respectively. The decrease of net assets was mainly due to overall net loss incurred during the year ended 31 December 2008.

For the year ended 31 December 2009, the turnover of the Group increased from approximately HK\$389.13 million to approximately HK\$434.77 million, representing an increase of approximately 11.73%. As advised by the management of the Company, despite the continual competitive and challenging business environment after the global financial turmoil in 2008, the performance of the Group had improved since second quarter of 2009. The increase in turnover of the Group was mainly due to a significant rebound of business with customers during the year ended 31 December 2009. Loss attributable to the owners of the Company reduced from approximately HK\$14.42 million for the year ended 31 December 2008 to approximately HK\$3.21 million for the year ended 31 December 2009. As advised by the management of the Company, the reduction in loss was mainly attributable to the decrease in the cost of sales, which was derived as a result of the steady raw material prices and the increase in production volume and hence higher efficiency in economies of scale. As at 31 December 2009, the audited net current liabilities and net assets of the Group amounted to approximately HK\$2.93 million and approximately HK\$181.31 million, respectively. Such decrease in the net current liabilities was mainly attributable to the increase in current assets, which was due to the increase in cash and bank deposits as a result of the profit generated from operating activities of the Company during the year 31 December 2009.

For the three months ended 31 March 2010, the turnover of the Group increased from approximately HK\$67.21 million for the first quarter of 2009 to approximately HK\$135.00 million, representing an increase of approximately 100.86%. As advised by the management of the Company, the increase in the turnover for the first quarter of 2010 was mainly due to the recovery of automobile market and hence more business with customers. Profit attributable to the owners of the Company was approximately HK\$1.98 million for the three months ended 31 March 2010, as opposed to the loss

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## LETTER FROM GOLDIN FINANCIAL

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attributable to the owners of the Company of approximately HK\$4.55 million for the three months ended 31 March 2009. As advised by the management of the Company, such improvement was mainly due to the increase in gross profit margin ratio, which was derived as a result of the steady raw material prices and the increase in production volume and hence higher efficiency in economies of scale. However, the Group's business of provision of amplifiers and loudspeaker systems for home theatre to audio companies in the retail markets in North America, Europe and Asia, through the Indigo Group, recorded a loss during the period.

### 2. Reasons for and benefits of the Disposals

#### 2.1 The Indigo Group

As disclosed in the Letter from the Board, Indigo, a company incorporated in Samoa with limited liability, is an investment holding company and wholly-owned by the Company. With its principal office and production facilities located in Canada, the Indigo Group is principally engaged in the provision of design, development and marketing of home and automotive audio products including amplifiers and loudspeaker systems for home theatre to the retail markets in North America, Europe and Asia.

Set out below is the audited financial results of the Indigo Group for the two years ended 31 December 2009:

**Table 2: Financial highlights of the Indigo Group**

|                      | For the year<br>ended 31 December |                  |
|----------------------|-----------------------------------|------------------|
|                      | 2008<br>HK\$'000                  | 2009<br>HK\$'000 |
| Revenue              | 94,259                            | 63,833           |
| Loss before taxation | (3,553)                           | (6,962)          |
| Loss after taxation  | (3,553)                           | (6,962)          |
| Net liabilities      | 1,487                             | 4,350            |

As set out in Table 2 above, for the year ended 31 December 2008, the revenue of the Indigo Group dropped from approximately HK\$94.26 million to approximately HK\$63.83 million, representing a decrease of approximately 32.28%. For the year ended 31 December 2009, the loss incurred by the Indigo Group increased from approximately HK\$3.55 million to approximately HK\$6.96 million. As discussed with the management of the Company, the performance of the Indigo Group was negatively affected by the global financial turmoil and the increase in loss was mainly attributable to the decrease in sales of products with high profit margin and the decrease in production volume and hence lower efficiency in economies of scale. As at 31 December 2009, the net liabilities of the Indigo Group were approximately HK\$4.35 million.

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## LETTER FROM GOLDIN FINANCIAL

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Upon completion of the disposal of the Indigo Sale Share and Indigo Sale Loan, it is expected that a gain on disposal of approximately HK\$7.24 million would be recognized based on the difference between the consideration for the disposal of the Indigo Sale Share and the Indigo Sale Loan and the aggregate of the consolidated net liabilities of Indigo and the amount of the Indigo Sale Loan.

As advised by the management of the Company, the Indigo Group produces its home and automotive audio products at its production facilities in Canada and markets its products in the North American, European and Asian markets. Upon enquiry, we were given to understand that the home and automotive audio products were sold to audio companies in the retail markets in North America, Europe and Asia. Since the revenue for the year ended 31 December 2009 derived from North America (which primarily comprise the United States and Canada), Europe and Taiwan accounted for approximately 59.55%, approximately 14.17% and approximately 14.37%, respectively, which in total accounted for more than 88% of the revenue generated by the Indigo Group, we have conducted researches from public domains on the retail markets in North America, Europe and Taiwan, the major markets in which the Indigo Group principally operates. Since the amplifiers and loudspeaker systems for home theatre produced by the Indigo Group were sold to audio companies in the retail markets in North America, Europe and Asia and that the consumer confidence index is an economic indicator which reflects the degree of optimism that consumers feel about the overall state of the economy and their present financial situations, which in turn would reflect their spending pattern on consumer goods, we have also conducted researches on the consumer confidence in North America, Europe and Taiwan. The researches are shown as below:

### The North American market

As a result of the global financial crisis, both the United States and Canada have experienced economy recessions and yet to be recovered. According to the World Factbook published and last revised on 24 June 2010 by the Central Intelligence Agency of the United States, the gross domestic products (“GDP”) of the United States and Canada in 2009 decreased by approximately 2.40% and approximately 2.50%, respectively. The consumer confidence was severely affected and such impact can be reflected by the consumer confidence indices in the United States and Canada. According to the U.S. Conference Board, the consumer confidence index of the United States dropped from approximately 87.30 points in January 2008 to approximately 54.30 points in June 2010. For the consumer confidence index of Canada, according to the Organisation for Economic Co-operation and Development (an international economic organization), it dropped from approximately 101.00 points in January 2008 to approximately 86.40 points in June 2010.

In addition, according to Bureau of Economic Analysis released and last revised on 30 July 2010 by U.S. Department of Commerce, the consumption expenditures of the United States on durable goods in 2009 reduced from approximately US\$1,083.5 billion to approximately US\$1,026.5 billion, representing a decrease of approximately 5.26%. According to Statistics Canada, the Canada’s central statistical agency, the consumption expenditure of Canada on durable goods dropped by approximately 3.71% in 2009 as compared with that of 2008.

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## LETTER FROM GOLDIN FINANCIAL

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Given the ongoing turmoils in the housing and financial markets in the United States which will negatively affect the consumer confidence, there are still uncertainties on the prospect of operation of the Indigo Group in the North American market.

### The European market

According to the World Factbook published and last revised on 24 June 2010, the GDP of the European Union in 2009 decreased by approximately 4.03% and the unemployment rate of the European Union increased by 1.9 percentage points in 2009. The consumer confidence was negatively affected and was reflected by the decrease of 5.8 points in the consumer confidence index in June 2010 as compared with that in January 2008, according to the European Commission.

In view of the recent financial stress arose from, including but not limited to, the sovereign debt crisis concerning some European countries including Greece, Spain and Portugal in early 2010 and other significant risks such as deteriorating fiscal positions, rising unemployment and tight bank lending, the growth in economies in the European countries would inevitably be negatively affected. As such, the retailing market in Europe is expected to be competitive and challenging.

### The Taiwan market

According to the World Factbook published and last revised on 24 June 2010, the GDP of Taiwan decreased by approximately 2.50% and the unemployment rate of Taiwan increased by 1.8 percentage points in 2009 as compared with that of 2008. Such decrease in GDP was primarily due to a 20% year-on-year decline in exports. According to the Trade Profile of Taiwan released by the World Trade Organisation in March 2010, the United States and the European Union were the third and fourth largest destinations of exports of Taiwan, which accounted for approximately 12.1% and approximately 11.0% of the total exports in Taiwan in 2009, respectively. In view of the significant portions of exports are contributed by the United States and the European Union, it is considered that the economy of Taiwan would be affected by the economies of North American and European markets. According to the research conducted by the Research Center for Taiwan Economic Development Nation Central University, the consumer confidence index in Taiwan dropped slightly by 0.43 points in December 2009 as compared with that of January 2008. Given the economy of Taiwan is dependent on the economies of North American and European markets and the current high unemployment rate in Taiwan, the prospect of operation of the Indigo Group in the Taiwan market remains uncertain.

Furthermore, as discussed with the management of the Company, the unsatisfactory performance of the Indigo Group was mainly caused by (i) the high labour costs and raw material costs in North America; (ii) the decline in the retail markets in North America, Europe and Taiwan; and (iii) the rising imports from low-cost countries like China which satisfy the majority of domestic demand. The consumer confidence in various markets, especially the United States where there has been ongoing turmoils in the housing and financial markets, may not be able to recover in the short run. In view of the rising production costs in Canada and the general unfavourable market sentiment in North America, Europe and Taiwan, it is expected that the operating environment of home and automotive audio products of the Indigo Group in various markets will remain challenging and competitive.

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## LETTER FROM GOLDIN FINANCIAL

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As noted from the first quarterly report of the Company for the three months ended 31 March 2010, the Group has been committed to strengthen its core businesses of manufacture and sales of high performance loudspeaker products to major automakers and consumer electronic companies around the world. Despite the unsatisfactory performance of the Indigo Group, the Group achieved a turnaround and recorded a profit attributable to owners of the Company of approximately HK\$1.98 million for the three months ended 31 March 2010. As advised by the management of the Company, such profit was mainly derived from the PRC operation of the Group. The disposal of the Indigo Group allows the Group to cease the loss-making business of the home and automotive audio products operated in North America. In addition, the Group has expended various resources, including management time and effort, over the businesses of the home and automotive audio products (ie. the Indigo Group). As such, the entering into of the Indigo Agreement allows the Group to realise its investment in the Indigo Group and to reallocate the resources into areas with higher revenue and earnings growth potentials to create value for the Shareholders.

Based on the foregoing analysis, and after taking into account (i) the historical results of the operations of the Indigo Group were unsatisfactory; (ii) the prospect of the retail markets in North America, Europe and Taiwan where revenue of the Indigo Group are mainly generated from is uncertain; (iii) the entering into of the Indigo Agreement allows the Group to realise its investment in the Indigo Group and to reallocate the resources into areas with higher revenue and earnings growth potentials to create value for the Shareholders; (iv) the loan of approximately HK\$18.75 million owing by the Company to Newood shall be set off at completion of the Indigo Agreement and the liabilities of the Group would decrease accordingly; and (v) a gain on the disposal of the Indigo Sale Share and Indigo Sale Loan of approximately HK\$7.24 million is expected to be recognized at completion of the Indigo Agreement, we concur with the Directors' view that the entering into of the Indigo Agreement represents an opportunity for the Group to cease the loss making operation thereof and redeploy valuable resources for its other business operations at reasonable price.

### 2.2 *Taraki and the Taraki Property*

As disclosed in the Letter from the Board, Taraki, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of Taraki Inc., which in turn is a wholly-owned subsidiary of the Company. Taraki is principally engaged in the provision of management services to members of the Group and the holding of the Taraki Property. Taraki has no major asset or investment other than its holding of the Taraki Property, which had a market value of HK\$8.3 million as at 30 June 2010 based on the property valuation report prepared by the Valuer, an independent valuer engaged by the Company.

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## LETTER FROM GOLDIN FINANCIAL

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Set out below is the audited financial results of Taraki for the two years ended 31 December 2009:

**Table 3: Financial highlights of the Taraki**

|                      | For the year<br>ended 31 December |          |
|----------------------|-----------------------------------|----------|
|                      | 2008                              | 2009     |
|                      | HK\$'000                          | HK\$'000 |
| Revenue              | –                                 | –        |
| Loss before taxation | (169)                             | (257)    |
| Loss after taxation  | (169)                             | (257)    |
| Net assets           | 217                               | 968      |

As set out in Table 3 above, Taraki did not generate any revenue and has been loss-making for the past two financial years. The loss recorded by Taraki for the year ended 31 December 2009 increased by 52.07% to approximately HK\$257,000. As at 31 December 2009, the net assets of Taraki were approximately HK\$968,000.

As stated in the Letter from the Board, the head office and principal place of business of the Company in Hong Kong is situated at the Taraki Property. It is the intention of the Company to relocate its head office and principal place of business in Hong Kong which may better suit the scale and costs of operation of the Group in Hong Kong. Upon completion of the disposal of the Taraki Sale Shares and the Taraki Sale Loan, it is expected that a gain on disposal of approximately HK\$0.43 million would be recognized based on the difference between the consideration of the disposal of the Taraki Sale Share and Taraki Sale Loan and the aggregate of the net assets of Taraki and the amount of the Taraki Sale Loan. As advised by the management of the Company, the Company is actively seeking office premise for relocation purpose. The relocation cost is yet to be determined and the gain on disposal of approximately HK\$0.43 million does not take into account the relocation cost. It is expected by the management of the Company that no material cost would be incurred from the relocation of the office. Given (i) the sole purpose of Taraki is to provide the office premise and management services to members of the Group; (ii) upon completion of the SP Agreement, the existing office of the Company is expected to be relocated; and (iii) a gain on the disposal of the Taraki Sale Shares and the Taraki Sale Loan of approximately HK\$0.43 million is expected to be recognized and the liquidity of the Company is expected to be improved by the net cash proceeds upon completion of the disposal given the disposal is a cash transaction, we are of the view that it is reasonable for the Company not to retain Taraki and realise the investment in the Taraki Property for cash for the Company's other usages.

According to the annual report of the Company for the year ended 31 December 2009, the current liabilities of the Group as at 31 December 2009 was approximately HK\$298.69 million, which mainly comprised trade and note payables of approximately HK\$133.98 million and bank borrowings

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## LETTER FROM GOLDIN FINANCIAL

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of approximately HK\$93.36 million. However, the current assets of the Group as at 31 December 2009 amounted to only approximately HK\$295.76 million, which comprised trade and notes receivables of approximately HK\$153.10 million, inventories of approximately HK\$55.52 million and the cash and cash equivalents and pledged bank deposits of approximately HK\$64.79 million. The Group is, in fact, in a net liabilities position. Given (i) the Group is in net current liabilities position; (ii) all short-term debts and the redeemable Convertible Bonds will become due within the next 12 months; and (iii) the Disposals are cash transactions and the cash proceeds from the Disposals can be used for repayment of the interest accrued and to be accrued under the outstanding Convertible Bonds and as general working capital of the Company, we are of the view that the Disposals represent a good opportunity to divest its non-performing business and non-core asset. The cash proceeds from the Disposals would be utilized and reallocated to other operations with higher revenue and earnings growth potentials and help to strengthen and improve the financial position of the Group.

Having considered (i) the disposal of the Indigo Group provides an opportunity for the Group to cease the loss-making operation and to reallocate the resources into areas with higher revenue and earnings growth potentials to create value for the Shareholders; (ii) the entering into of the Taraki Agreement would allow the Company to realise the investment in the Taraki Property for cash for the Company's other usages; (iii) it is expected that gains on disposals of approximately HK\$7.24 million and approximately HK\$0.43 million would be recognized as a result of the disposal of the Indigo Sale Share and the Indigo Sale Loan and the disposal of the Taraki Sale Shares and the Taraki Sale Loan, respectively; (iv) the Company will benefit from an increased cash balance by the amount of the cash proceeds from the Disposals and a reduction of liability as a result of the offsetting of the Indigo Sale Loan; and (v) the cash proceeds from the Disposals will be used for repayment of the interest accrued and to be accrued under the outstanding Convertible Bonds and as general working capital of the Company, which would enhance the liquidity of the Company, we concur with the Director's view that the Disposals are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### **3. Principal terms of the Indigo Agreement and the Taraki Agreement**

#### **(a) Assets to be disposed of**

- (i) the Indigo Sale Share, representing the entire issued share capital of Indigo and the Indigo Sale Loan, representing all obligations, liabilities and debts owing or incurred by Indigo to the Company due and payable on completion of the Indigo Agreement; and
- (ii) the Taraki Sale Shares, representing the entire issued share capital of Taraki and the Taraki Sale Loan, representing all obligations, liabilities and debts owing or incurred by Taraki to the Taraki Inc. due and payable on completion of the Taraki Agreement;

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**(b) Consideration for the Disposals**

*The Indigo Group*

As stated in the Letter from the Board, the aggregate consideration for the Indigo Sale Share and the Indigo Sale Loan was agreed between Company and Newood after arm's length negotiations with reference to the consolidated net liabilities position of Indigo as at 31 December 2009 and the amount of the Indigo Sale Loan.

We attempted to use price-to-earning and price-to-book multiples to assess the fairness of aggregate consideration for the Indigo Sale Share and the Indigo Sale Loan by comparing such trading multiples of the Indigo Group to that of other companies which operate similar businesses and with their shares listed on the Stock Exchange. However, since the Indigo Group recorded a loss of approximately HK\$6.96 million for the year ended 31 December 2009 and net liabilities of approximately HK\$4.35 million as at 31 December 2009, such analyses are considered not applicable. We also attempted to use the multiple of enterprise value ("EV") to earnings before interest, taxes, depreciation and amortization ("EBITDA") for assessing the fairness of the consideration. However, the EBITDA of the Indigo Group for the year ended 31 December 2009 was negative. Accordingly, such analysis of EV/EBITDA is also considered not applicable.

In view of the facts that (i) the Indigo Group was at loss-making position for the year ended 31 December 2009 and net liabilities position as at 31 December 2009; (ii) the aggregate consideration for the Indigo Sale Share and the Indigo Sale Loan was arrived after arm's length negotiations between the Company and Newood; and (iii) a gain on the disposal of the Indigo Sale Share and Indigo Sale Loan of approximately HK\$7.24 million is expected to be recognized after taking into account the consideration for the disposal of the Indigo Sale Share and the Indigo Sale Loan and the aggregate of the consolidated net liabilities of Indigo and the amount of the Indigo Sale Loan, we are of the view that the terms of the Indigo Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

*Taraki and the Taraki Property*

As disclosed in the Letter from the Board, the aggregate consideration for the Taraki Sale Shares and the Taraki Sale Loan is HK\$8 million, which was agreed between Taraki Inc. and Newood after arm's length negotiations with reference to, among others, the audited net assets of Taraki as at 31 December 2009 of approximately HK\$0.97 million and the amount of the Taraki Sale Loan of approximately HK\$5.23 million.

According to the property valuation report as set out in the Appendix II to the Circular, the market value of the Taraki Property owned by Taraki as at 30 June 2010, being a recent date for the purpose of valuation before the expected date of completion of the Taraki Agreement by 12 October 2010, was HK\$8.30 million. As noted from the Letter of the Board, the unaudited net assets of Taraki as at 30 June 2010 was approximately HK\$2.33 million. Based on the aggregate consideration of the disposal of the Taraki Sale Shares and

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the Taraki Sale Loan and the aggregate of the net assets of Taraki and the amount of the Taraki Sale Loan, the Company is expected to recognise a gain on the disposal of the Taraki Sale Shares and the Taraki Sale Loan of approximately HK\$0.43 million.

In order to assess the fairness and reasonableness of the methodology used in arriving at the said valuation, we have reviewed the property valuation report and have discussed with the Valuer regarding the basis of choosing the methodology adopted for the valuation. We were given to understand that in performing the valuation, the Valuer has adopted direct comparison method, under which comparison based on prices realized or market prices of comparable properties (of similar size, character and location) are made (after carefully weighing against all the respective advantages). The Valuer also confirmed us that they have complied with all requirements contained in Chapter 8 of the GEM Listing Rules as well as certain related industry rules and standards. During the course of our discussions with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodology, principal bases and assumptions used in arriving at the valuation. We consider that the direct comparison method adopted by the Valuer is in line with the market practice of valuing tangible fixed assets of land and buildings (for which there can be an open market for transactions between willing buyers and sellers) and is hence reasonable.

Having considered that (i) the aggregate consideration for the Taraki Sale Shares and the Taraki Sale Loan was arrived after arm's length negotiations between Taraki Inc. and Newood; (ii) the valuation is performed by qualified independent valuer in compliance with the GEM Listing Rules and the relevant industry rules and standards; and (iii) it is expected that a gain on the disposal of the Taraki Sale Shares and the Taraki Sale Loan of approximately HK\$0.43 million would be recognized based on the consideration of the disposal of the Taraki Sale Shares and the Taraki Sale Loan and the aggregate of the net assets of Taraki and the amount of the Taraki Sale Loan, we are of the view that the terms of the Taraki Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

#### **4. Information on the remaining operation after the Disposals**

Upon completion of the Disposals, the remaining operation of the Group (the "Remaining Group") will be principally engaged in the manufacture and sales of loudspeaker products to major automakers and consumer electronics companies in the PRC, North America, Europe and other Asian countries. According to the annual report for the year ended 31 December 2009, the PRC is the most important market of the Group and the sales of loudspeaker systems in the PRC accounted for approximately 43% of the total revenue generated by the Group. According to the first quarterly report of the Company for the three months ended 31 March 2010, the sales of loudspeaker systems in the PRC accounted for approximately 46% of the total revenue generated by the Group. The Directors expected that the Remaining Group would continue to maintain its leading loudspeaker manufacturer position in the PRC market.

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As the revenue stream of the Remaining Group is mainly derived from the sales of loudspeaker systems for automobiles, which is therefore largely dependent on the automobiles industry, we have conducted researches from public domains on the future outlook and prospects of the global automobiles industry, in particular, the PRC market.

According to a research dated 26 January 2010 conducted by Organisation for Economic Co-operation and Development, on the capacity and sales in the automobiles industry involving 17 countries in North America, Europe and Asia, both the estimated production capacity and the market sales in 2015 will increase by approximately 9.97% and approximately 38.38%, respectively, as compared with that of 2009. The estimated production capacity refers to the capacity of domestically based producers (both nationally and foreign-owned) and the estimated market sales refer to all sales in that country's market including those produced domestically (by nationally and foreign-owned firms) and imports. Given the revenue stream of the Remaining Group is highly dependent on the short-to-medium global production projection of automobiles, it is expected that the global automobiles industry and the derived demand for the products of the Remaining Group would be growing steadily in the medium term.

According to the China Statistical Yearbook 2009, the total number of possession of civil vehicles in 2008 was approximately 50,996,100, representing a year-on-year growth of approximately 17.0% from that of 2007. The total number of new registrations of civil vehicles for the year of 2008 was reported to 7,410,395, representing a year-on-year growth of approximately 22.3% from that of 2007. Despite the adverse effects to the automobiles industry caused by the global financial turmoil in late 2008, as a result of the government's subsidy plan for trade-in vehicles, it is expected that the stagnant vehicles sales would be spurred. According to the "Swap of Used Cars and Home Appliances for New Ones" program announced by the State Council of the PRC in March 2009, consumers who trade-in their old used vehicles for purchasing new ones will receive rebates from the government. Such policy applied to all vehicles traded in between the period from June 2009 to May 2010. The management of the Company expects that the automobile audio systems industry, in which the Group is principally engaged in, would be benefited from such favourable government policy towards the automobiles industry.

The statistics above demonstrated that the automobiles industry, in particular, in the PRC shall remain prosperous. Despite the recent market condition under the shadow of the credit crunch and financial turmoil, it is believed that the long-term economic development and automobiles industry growth shall remain optimistic.

### **5. Financial effects of the Disposals on the Remaining Group**

#### *(a) Earnings*

According to the annual report of the Company for the year ended 31 December 2009, the loss attributable to the owners of the Company for the year ended 31 December 2009 was approximately HK\$3.21 million. As a result of the Disposals, it is expected that gains on disposals of approximately HK\$7.24 million and approximately HK\$0.43 million would be recognized as a result of the disposal of the Indigo Sale Share and the Indigo Sale Loan and the disposal of the Taraki Sale Shares and the Taraki Sale Loan. Accordingly, it is expected that the earnings of the Group would improve after the Disposals.

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(b) *Net assets*

According to the annual report of the Company for the year ended 31 December 2009, the net assets of the Group were approximately HK\$181.31 million as at 31 December 2009. It is expected that gains on disposals of approximately HK\$7.24 million and approximately HK\$0.43 million would be recognized as a result of the disposal of the Indigo Sale Share and the Indigo Sale Loan and the disposal of the Taraki Sale Shares and the Taraki Sale Loan. Hence, the net assets of the Group will increase accordingly. This improvement in the financial position of the Group is beneficial to the Company and the Shareholders as a whole.

Upon completion of the Disposals, the Indigo Group and Taraki will cease to be subsidiaries of the Group and the assets and liabilities of the Indigo Group and Taraki will be deconsolidated from the financial statements of the Group.

(c) *Liquidity*

As at 31 December 2009, the cash and cash equivalents and pledged bank deposits of the Group were approximately HK\$64.79 million. Upon completion of the Disposals, the cash balance of the Group is expected to increase by cash proceeds from the Disposals, which will be used for repayment of the interest accrued and to be accrued under the outstanding Convertible Bonds and as general working capital of the Company. As such, completion of the Disposals is expected to have a positive impact on the liquidity position of the Group.

(d) *Gearing ratio*

According to the annual report of the Company for the year ended 31 December 2009, the gearing ratio of the Group was 16.95% (calculated based on the total bank borrowings net of cash and cash equivalents and pledged bank deposits of approximately HK\$30.73 million as at 31 December 2009 over total equity of approximately HK\$181.31 as at 31 December 2009). Upon completion of the Disposals, the total equity of the Group would increase as a result of the expected gains on disposals that would be recognized after the Disposals. As such, the gearing ratio of the Group subsequent to completion of the Disposals is expected to improve.

### RECOMMENDATIONS

Based on the abovementioned principal factors and reasons for the Disposals, and after taking into account that:

- the unsatisfactory financial performance of the Indigo Group for the two years ended 31 December 2009;
- the Disposals allow the Group to realise its investment in the Indigo Group and Taraki and to reallocate the resources into areas better placed to create value for the Shareholders;

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## LETTER FROM GOLDIN FINANCIAL

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- it is expected that gains on disposals of approximately HK\$7.24 million and approximately HK\$0.43 million would be recognized as a result of the disposal of the Indigo Sale Share and the Indigo Sale Loan and the disposal of the Taraki Sale Shares and the Taraki Sale Loan, respectively; and
- the Disposals will have positive impacts on the earnings, net assets, liquidity and gearing of the Remaining Group,

we consider that the terms of the Indigo Agreement and the Taraki Agreement are normal commercial terms, in ordinary course of business and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Indigo Agreement and the Taraki Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Goldin Financial Limited**

**Billy Tang**  
*Director*

**Hidulf Kwan**  
*Director*

**1. INDEBTEDNESS****Borrowings**

At the close of business on 30 June 2010, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$93.4 million which comprised secured bank overdrafts of approximately HK\$9.2 million, secured short-term bank loans of approximately HK\$82.0 million, secured mortgage loan of approximately HK\$2.2 million and an obligation under finance lease of approximately HK\$20,000. As at 30 June 2010, the Company had unsecured convertible bond with principal amounting to HK\$38.8 million and related outstanding interest of approximately HK\$3.8 million, unsecured amount due from the Company to Newood amounting to approximately HK\$17.8 million and unsecured amount due from the Company to minority shareholder of a subsidiary amounting to approximately HK\$14.6 million.

**Capital commitments**

As at 30 June 2010, the Group had outstanding capital commitments contracted but not provided for in the Group's financial statements of approximately HK\$3.5 million.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into HK\$ at the rates of the exchange prevailing at the close of business on 30 June 2010.

Save as disclosed above and apart from intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 30 June 2010 any debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages and charges, hire purchase commitments, guarantees or other material contingent liabilities.

**2. WORKING CAPITAL**

After due and careful consideration, the Directors are of the opinion that, taking into account the Group's internal resources, available banking facilities, the effect of the Disposals, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements for at least twelve months from the date of this circular.

**3. MATERIAL ADVERSE CHANGE**

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited consolidated accounts of the Company were made up.

**4. FINANCIAL AND TRADING PROSPECTS**

The Group recorded audited consolidated losses attributable to equity holders of the Company of approximately HK\$14.4 million and approximately HK\$3.2 million for the two financial years ended 31 December 2008 and 2009 respectively. The Group recorded unaudited profit attributable to equity holders of the Company of approximately HK\$2.0 million for the three months ended 31 March 2010. The audited consolidated total equity attributable to equity holders of the Company as at 31 December 2009 was approximately HK\$82.5 million. As stated in the first quarterly report of the Company for the three months ended 31 March 2010, the Group was committed to strengthen its core businesses of manufacture and sales of high performance loudspeaker products to major automakers and consumer electronics companies around the world, such as Ford Motor Company, Volkswagen and Audi. In addition, the Group continued to launch new and competitive multimedia and home theatre products to satisfy its renowned customers' needs. Mainland China remained the most important market of the Group, and the sales of loudspeaker systems in China contributed 46% of the Group's turnover for the three months ended 31 March 2010. The Group continued to maintain its leading loudspeaker manufacturer position with well-established business relationships with major industry players, such as Shanghai General Motors, Shanghai Volkswagen and Dongfeng Peugeot Citroen Automobile, in the PRC market.

With the American economy showing tendencies of recovery, it will be possible for the world economy to gradually resume its normal pace of development. However, the Company expects the operating environment for the year of 2010 will continue to be challenging. Threat of rising raw material costs continues to exist, but the Company anticipate lower levels of volatility. There will be continued intense competition from other industry players. The Company is confident that with the Group's solid foundation, times of challenge bring opportunity for the Group to break away from competitors and take business to next level of market leadership in the automobile loudspeaker industry in the PRC.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular by BMI Appraisals Limited, an independent valuer, in connection with the valuations as at 30 June 2010 of the properties held and leased by Indigo Group and Taraki, being the subjects of the Disposals.

## **BMI APPRAISALS**

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong  
香港灣仔港灣道6-8號瑞安中心3111-18室  
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863  
Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

6 August 2010

The Directors  
**Sonavox International Holdings Limited**  
14th Floor  
Kam Sang Building  
Nos. 255-257 Des Voeux Road Central  
Hong Kong

Dear Sirs,

### **INSTRUCTIONS**

We refer to the instructions from Sonavox International Holdings Limited (the “Company”) for us to value the property held and leased by the Indigo Group and Taraki (together referred to as the “Disposal Group”) located in Hong Kong and Canada respectively. We confirm that we have conducted inspections, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 June 2010 (the “date of valuation”).

### **BASIS OF VALUATION**

Our valuations of the concerned properties have been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

### **PROPERTY CATEGORIZATION**

In the course of our valuations, the portfolio of properties of the Disposal Group is categorized into the following groups:

- Group I – Property held by the Disposal Group in Hong Kong
- Group II – Property leased by the Disposal Group in Canada

**VALUATION METHODOLOGY**

In valuing the property held by the Disposal Group in Hong Kong, we have valued it on an open market basis by the Comparison Approach assuming sale in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the property and the comparables in terms of time, location, size and other relevant factors.

For the property leased by the Disposal Group in Canada, we are of the opinion that it has no commercial value either because of the prohibitions against assignment and/or subletting contained in the respective tenancy agreements or the lack of marketable and / or substantial profit rents.

**TITLE INVESTIGATION**

For the property located in Hong Kong, we have caused land search to be made at the Land Registry and have been provided with copies of title documents. We have been advised by the Company that no further relevant documents have been produced. However, we have neither examined the original documents to verify ownership nor to ascertain the existence of any amendments, which do not appear on the copies handed to us. All documents have been used for reference only.

In valuing the interest in the property leased by the Disposal Group, we have been provided with a copy of the tenancy documents relating to the property located in Canada. However, we have not searched the title of the property and have not scrutinized the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. All documents have been used for reference only.

**VALUATION ASSUMPTIONS**

Our valuations have been made on the assumptions that the properties are sold in the open market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the values of the properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

**VALUATION CONSIDERATIONS**

We have inspected the exterior and wherever possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been made. We are, therefore, unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

In the course of our valuations, we have relied to a considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, completion dates of buildings, particulars of occupancy, site/floor areas, identification of the properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Company and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company and we have relied on your confirmation that no material facts have been omitted from the information so supplied.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **REMARKS**

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK\$) and no allowances have been made for any exchange transfer.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,

For and on behalf of

**BMI APPRAISALS LIMITED**

**Dr. Tony C.H. Cheng**

*BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ),*

*MHKIS, MCI Arb, AFA, SIFM, FCIM,*

*MASCE, MIET, MIEEE, MASME, MIIIE*

**Managing Director**

**Joannau W.F. Chan**

*BSc., MSc., MRICS, MHKIS, RPS(GP)*

**Senior Director**

### *Notes:*

Dr. Tony C.H. Cheng is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 17 years' experience in valuations of properties in Hong Kong and over 4 years' experience in valuations of properties in Canada.

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 17 years' experience in valuations of properties in Hong Kong.

## SUMMARY OF VALUES

| No.   | Property   | Market Value<br>in existing state<br>as at 30 June 2010<br><i>HK\$</i> |
|---|--|--|
| <b>Group I – Property held by the Disposal Group in Hong Kong</b> |  |  |
| 1.  | 14th Floor,<br>Kam Sang Building,<br>Nos. 255-257 Des Voeux Road Central,<br>Hong Kong | 8,300,000  |
|   |  | _____  |
| <b>Sub-total:</b>   |  | <b>8,300,000</b>   |
| <b>Group II – Property leased by the Disposal Group in Canada</b> |  |  |
| 2.  | 10 Konrad Cres.,<br>Markham,<br>Ontario,<br>Canada<br>L3R 8T7                          | No Commercial Value  |
|   |  | _____  |
| <b>Sub-total:</b>   |  | <b>Nil</b>   |
|   |  | _____  |
| <b>TOTAL:</b>   |  | <b>8,300,000</b>   |
|   |  | <b>=====</b>   |

## VALUATION CERTIFICATE

## Group I – Property held by the Disposal Group in Hong Kong

| No.   | Property  | Description and tenure  | Particulars of occupancy | Market Value<br>in existing state<br>as at 30 June 2010<br>HK\$ |   |   |  |  |   |           |
|---|---|---|--------------------------|---|---|---|--|--|---|-----------|
| 1.  | 14th Floor,<br>Kam Sang Building,<br>Nos. 255-257 Des<br>Voeux Road Central,<br>Hong Kong<br><br>106/2,764th of<br>99/100th equal and<br>undivided shares of<br>and in Inland Lot<br>No. 8585 and the<br>Remaining Portion<br>of Section A of<br>Marine Lot No. 352 | <p>The property comprises the whole 14th Floor of a 25-storey commercial building which was completed in 1992.</p> <p>The gross floor area of the property is about 1,463 sq.ft (or about 135.92 sq.m.) whereas the saleable area of the property is about 1,019 sq.ft. (or about 94.67 sq.m.).</p> <p>The property is held under Conditions of Grant and a Government Lease with the following terms:-</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Lot No.</u></th> <th style="text-align: left;"><u>Term</u></th> </tr> </thead> <tbody> <tr> <td>Inland Lot No. 8585<br/>(Conditions of Grant<br/>No. 11765)</td> <td>75 years renewable<br/>for 75 years<br/>commencing on<br/>29 November 1984</td> </tr> <tr> <td>Marine Lot<br/>No. 352ARP<br/>(Government Lease)</td> <td>999 years<br/>commencing on<br/>31 June 1900</td> </tr> </tbody> </table> <p>The annual Government rent payable for the lots is HK\$1,021 whereas the rates payable for the property annually is equal to 5% of its rateable value.</p> | <u>Lot No.</u>           | <u>Term</u>   | Inland Lot No. 8585<br>(Conditions of Grant<br>No. 11765) | 75 years renewable<br>for 75 years<br>commencing on<br>29 November 1984 | Marine Lot<br>No. 352ARP<br>(Government Lease) | 999 years<br>commencing on<br>31 June 1900 | The property is occupied by the Company for office use. | 8,300,000 |
| <u>Lot No.</u>  | <u>Term</u>   |   |                          |   |   |   |  |  |   |           |
| Inland Lot No. 8585<br>(Conditions of Grant<br>No. 11765) | 75 years renewable<br>for 75 years<br>commencing on<br>29 November 1984   |   |                          |   |   |   |  |  |   |           |
| Marine Lot<br>No. 352ARP<br>(Government Lease)            | 999 years<br>commencing on<br>31 June 1900  |   |                          |   |   |   |  |  |   |           |

*Notes:*

1. The registered owner of the property is Taraki Services Company Limited registered vide Memorial No. 06042200050017 dated 23 June 2006 at a consideration of HK\$4,330,000.
2. The property is held under a Mortgage in favour of Hang Seng Bank Limited registered vide Memorial No. 07071303040035 dated 14 June 2007.
3. According to the information provided by the Group, the potential liability which would arise on the disposal of the property is Stamp Duty being 3.75% of the amount of valuation. It is expected that the relevant Stamp Duty will be crystallised in the future as the property is held for sale.

## VALUATION CERTIFICATE

## Group II – Property leased by the Disposal Group in Canada

| No. | Property  | Description and tenure  | Particulars of occupancy   | Market Value<br>in existing state<br>as at 30 June 2010<br>HK\$ |
|-----|---|---|--|---|
| 2.  | 10 Konrad Cres.,<br>Markham,<br>Ontario,<br>Canada<br>L3R 8T7 | <p>The property comprises a single-storey commercial building which was completed in about 1997.</p> <p>The gross floor area of the property is approximately 15,242 sq.ft. (or about 1,416 sq.m.).</p> <p>Pursuant to a tenancy agreement and its amendment agreement entered into between an independent third-party landlord and Sonavox Canada Inc. dated 23 August 2007 and 9 July 2008 respectively, the property is leased to Sonavox Canada Inc. for operation of offices, storage, light manufacturing and distribution of electronic and electrical components for a term of 5 years commencing on 1 September 2007 and expiring on 31 August 2012 at a monthly rent of CAD10,161.33 exclusive of electricity, gas, water and maintenance fees.</p> | The property is occupied by the Disposal Group for office and production uses. | No Commercial Value   |

*Note:*

Pursuant to the aforesaid tenancy agreement and amendment agreement, the tenant of the property is Sonavox Canada Inc., which is a wholly-owned subsidiary of the Company.

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

All Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to the Offeror and the Offers were extracted from the joint announcement of the Company and the Offeror dated 16 July 2010 and the offer document posted by the Offeror on 6 August 2010. The Directors jointly and severally accept full responsibility for the correctness and fairness of the reproduction or presentation of such information and confirm that such extraction is not misleading, and that, to the best of their knowledge, there are no other facts not contained in this circular, the omission of which would make any such extracted statement misleading.

**2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES OR DEBENTURES**

As at the Latest Practicable Date, none of the Directors and chief executives of the Company had interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**3. SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, the following persons or companies (not being a Director of the Company) had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

**(a) Long Positions in the Shares**

| <b>Name</b>                | <b>Capacity</b>                         | <b>Number of<br/>ordinary shares<br/>held</b> | <b>Percentage<br/>of interest</b> |
|----------------------------|---|---|-----------------------------------|
| Offeror ( <i>Note 1</i> )  | Beneficial owner                        | 240,000,000                                   | 73.83%                            |
| Mr. Shan ( <i>Note 1</i> ) | Interest of a controlled<br>corporation | 240,000,000                                   | 73.83%                            |

*Notes:*

- The Offeror is interested in 240,000,000 Shares, representing approximately 73.83% of the entire issued share capital of the Company. Mr. Shan is the sole beneficial owner and the sole director of the Offeror. Mr. Shan is deemed to have interest in these Shares under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person or company who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any other member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

**5. EXPERTS**

The qualifications of the experts who have given their opinion in this circular are as follows:

| <b>Name</b>                   | <b>Qualification</b>  |
|-------------------------------|---|
| Independent Financial Adviser | licensed corporation under the SFO permitted to engage in type 6 (advising on corporate finance) regulated activity |
| BMI Appraisals Limited        | Professional valuer   |

As at the Latest Practicable Date, each of the Independent Financial Adviser and BMI Appraisals Limited did not have any shareholding in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the Independent Financial Adviser and BMI Appraisals Limited did not have any interest, direct or indirect in any assets which had been, since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

## **6. CONSENTS**

Each of the Independent Financial Adviser and BMI Appraisals Limited has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters (as the case may be) and references to their respective names included herein in the form and context in which they are included.

## **7. LITIGATION AND CLAIMS**

As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigations or claims and no litigations or claims of material importance is pending or threatened against the Company or any member of the Group.

## **8. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, save for the subject matter under the Indigo Agreement and the Taraki Agreement, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2009 (being the date to which the latest published audited accounts of the Group were made up).

As at the Latest Practicable Date, save for the following agreements, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group:

- a. the Indigo Agreement; and
- b. the Taraki Agreement

## 9. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Yang Tsu Ying and Mr. Yang, both being executive Directors, are also engaged in the business of manufacturing and trading of various types of loudspeakers through Sonavox Electronics (Suzhou Industrial Park) Company Limited, Sonavox Electronics Inc., Sonavox Electronics Limited, Fortune Win Limited and Asian Elite International Company Limited (collectively known as the "Private Group"). As the business of the Group is overlapping with that of the Private Group to the extent that the Private Group is engaged in the manufacture and sale of loudspeakers for automotive aftermarket, Mr. Yang Tsu Ying, Mr. Yang and the Private Group had entered into the deed of undertaking on 15 July 2002 with the Company pursuant to which Mr. Yang Tsu Ying, Mr. Yang and the Private Group had given to the Group certain non-competition and referral of business opportunities undertakings. The said deed of undertaking was terminated upon SP Completion as Mr. Yang Tsu Ying and Mr. Yang are no longer controlling Shareholders following the SP Completion.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates had an interest in a business, which competes or may compete with the business of the Group as at the Latest Practicable Date.

## 10. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within two years immediately preceding the Latest Practicable Date:

- (a) the Indigo Agreement;
- (b) the Taraki Agreement;
- (c) the agreement dated 12 November 2009 entered into between (i) 蘇州和盛實業有限公司 (Suzhou Hesheng Industrial Co., Ltd.), a company established in the PRC and a non-wholly-owned subsidiary of the Company; and (ii) 蘇州市蠡口建築安裝實業有限公司 (Suzhou City Likou Construction Installation Industrial Co., Ltd.) in relation to the construction works to be conducted at 蘇州相城區北橋街道靈峰村 (Ling Feng Village, Bei Qiao Jie Road, Xiangcheng District, Suzhou) for the construction of warehouse and three blocks of factory buildings (to be referred to as warehouse and factory buildings No. 4 to 6, Phase II) at a consideration of RMB15,265,422.71; and
- (d) the agreement dated 5 November 2009 entered into between (i) 蘇州上聲科技有限公司 (Suzhou Shangsheng Technology Co. Ltd.), a company established in the PRC and a non-wholly-owned subsidiary of the Company ("Shangsheng Technology"); and (ii) 上聲電子(蘇州工業園區)有限公司 (Shangsheng Electronics (Suzhou Industrial Park) Company Limited), a company established in the PRC and is owned by each of Mr. Yang Tsu Ying and Mr. Yang (both being executive Directors) as to 5% and 90% respectively ("Shangsheng Electronics") in relation to the acquisition of certain machinery from Shangsheng Electronics by Shangsheng Technology with an aggregate cash consideration of approximately RMB3,553,000.

**11. SECRETARY OF THE COMPANY**

The secretary of the Company is Mr. Chan Chi Hung. He is a member of Hong Kong Institute of Certified Public Accountant and a fellow member of the Associate of Chartered Certified Accountant.

**12. AUDIT COMMITTEE OF THE COMPANY**

The following are the members of the audit committee of the Company:

**Mr. Yiu Chi Wah**, aged 46, joined the Group in July 2002, and has over seventeen years of experience in finance and investment advisory affairs. He holds a bachelor's degree in arts with National Taiwan University in Taiwan and had worked for Polaris Securities (Hong Kong) Limited as a dealing director and an investment adviser registered under the SFO.

**Mr. Fan Chi Fai, Paul**, aged 48, joined the Group in September 2004, and is a member of Institute of Chartered Accountants in England and Wales. Mr. Fan works as Head of Finance and Operations of an international media company. Mr. Fan has obtained an honour degree in Bachelor of Accountancy, Finance and Economics from the University of Essex, U.K..

**Mr. Lee Fang Yu**, aged 49, joined the Group in July 2008. Mr. Lee graduated from the Department of Civil Engineering of the Chinese Junior College of Industrial and Commercial Management in Taiwan in 1981. Mr. Lee has more than twenty years of experience in the industry of construction. He had been a marketing manager and an assistant vice president in different construction companies. Mr. Lee has been the president of Chuan Yi Construction Co., Ltd. Since 1992.

Under its terms of reference for audit committee passed under a directors' resolution dated 28 June 2005, the audit committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations.

**13. COMPLIANCE OFFICER**

The compliance officer of the Company is Mr. Yang.

**14. GENERAL**

The principal place of business of the Company is located at 14th Floor, Kam Sang Building, 255-257 Des Voeux Road Central, Hong Kong.

The principal place of business of Goldin Financial Limited, the Independent Financial Adviser, is located at 23/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

**15. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 14th Floor, Kam Sang Building, 255-257 Des Voeux Road Central, Hong Kong, during normal business hours on any weekday (public holidays excluded) from the date of this circular up to and including 23 August 2010, being the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the two years ended 31 December 2009;
- (iii) the Indigo Agreement;
- (iv) the Taraki Agreement;
- (v) the material contracts referred to in the paragraph headed “Material Contracts” above;
- (vi) the letter from the Independent Board Committee, the text of which is set out on page 17 of this circular;
- (vii) the property valuation report issued by BMI Appraisals Limited, the text of which is set out in Appendix II to this circular;
- (viii) the letter from Goldin Financial, the text of which is set out on pages 18 to 33 of this circular;
- (ix) the written consents from the Independent Financial Adviser and BMI Appraisals Limited as referred to in the paragraph headed “Experts” above; and
- (x) this circular.

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## NOTICE OF EGM

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### SONAVOX INTERNATIONAL HOLDINGS LIMITED

### 上聲國際控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8226)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“**EGM**”) of Sonavox International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) will be held at 14th Floor, Kam Sang Building, 255-257 Des Voeux Road Central, Hong Kong at 10:00 a.m. on Monday, 23 August 2010 for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT,**

- (i) subject to the consent of the Executive Director of Corporate Finance Division of the Securities and Futures Commission of Hong Kong pursuant to rule 25 of The Code on Takeovers and Mergers of Hong Kong, the disposal agreement (the “**Indigo Agreement**”) dated 12 July 2010 (a copy of the Indigo Agreement has been produced to this meeting, marked “A” and signed by the Chairman of this meeting for the purpose of identification and the details of which are set out in the circular of the Company dated 6 August 2010 (the “**Circular**”), a copy of which has been produced to this meeting, marked “B” and signed by the Chairman of this meeting for the purpose of identification) in relation to the disposal by the Company of the entire issued share capital in and the entire shareholder’s loan due by Indigo Enterprises Inc. entered into between the Company and Newood Consultancy Limited (“**Newood**”) at a total consideration of HK\$43,753,187.50, and the transactions contemplated under the Indigo Agreement, be and are hereby approved, confirmed and ratified; and
- (ii) the Directors, acting together, individually or by committee, be and are hereby authorised to take such actions, do such things and execute such further documents or deeds for and on behalf of the Company as such Directors may, in their opinion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the Indigo Agreement and any transactions contemplated thereunder.”

2. “**THAT,**

- (i) subject to the consent of the Executive Director of Corporate Finance Division of the Securities and Futures Commission of Hong Kong pursuant to rule 25 of The Code on Takeovers and Mergers of Hong Kong, the disposal agreement (the “**Taraki Agreement**”) dated 12 July 2010 (a copy of the Taraki Agreement has been produced to this meeting, marked “C” and signed by the Chairman of this meeting for the purpose of identification and the details of which are set out in the Circular, a copy of

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## NOTICE OF EGM

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which has been produced to this meeting, marked “B” and signed by the Chairman of this meeting for the purpose of identification) in relation to the disposal by Taraki Inc., a wholly-owned subsidiary of the Company, of the entire issued share capital in and the entire shareholder’s loan due by Taraki Company Services Limited entered into between Taraki Inc. and Newood at a total consideration of HK\$8,000,000, and the transactions contemplated under the Taraki Agreement, be and are hereby approved, confirmed and ratified; and

- (ii) the Directors, acting together, individually or by committee, be and are hereby authorised to take such actions, do such things and execute such further documents or deeds for and on behalf of the Company as such Directors may, in their opinion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the Taraki Agreement and any transactions contemplated thereunder.”

By order of the Board  
**Sonavox International Holdings Limited**  
**Yang Tsu Ying**  
*Chairman*

Hong Kong, 6 August 2010

*Registered office:*  
Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

*Head office and principal place of  
business in Hong Kong:*  
14th Floor  
Kam Sang Building  
255-257 Des Voeux Road Central  
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged with the Company’s branch registrar in Hong Kong, Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.