



# S3 Investments

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## Corporate Profile

S3 Investment Company, Inc. has two subsidiary companies - a 51% interest in SINO UJE, Ltd., a non-stocking distributor of high tech western medical and industrial equipment into China and a wholly-owned subsidiary, Redwood Capital, Inc., which assists private Chinese companies in accessing U.S. capital markets.

## Contact

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## Websites

S3 Investment Company  
www.s3investments.com

SINO UJE  
www.sinouje.com

Redwood Capital  
www.redcapinc.com

## January/February News

2/23 - S3 Investments Announces First Order for SINO UJE from New Equipment Supplier

2/21 - S3 Investments Files 14A Definitive Proxy Statement with Notice of April 5, 2006 Shareholders Meeting

2/16 - S3 Investments Announces Major SINO UJE Supplier Orders for January

2/14 - S3 Investments Chairman Travels to China in Support of SINO UJE and Redwood Capital Businesses

2/09 - S3 Investments CEO Discusses Performance of SINO UJE Portfolio

2/01 - S3 Investments Announces Changes to Management Team

1/19 - S3 Investments Announces Entrance of First Redwood Capital Client into U.S. Public Markets

## Withdrawal of Business Development Company Election Up for Vote at April Shareholder Meeting

On Tuesday, February 22, 2006, S3 Investment Company filed a 14A Definitive Proxy Statement with the Securities and Exchange Commission requesting shareholder votes on a proposal that would authorize the Board of Directors to withdraw the Company's election to be treated as a business development company (BDC).

This filing culminated a process that was initiated by the Company back in late August 2005, when management decided that it would be in the best interests of the Company and its shareholders to withdraw the BDC election and instead be structured as an operating company.

In the Definitive 14A filing, shareholders of record are invited to attend a special meeting that will be held at the Company's corporate offices on April 5, 2006 at 10:00 a.m., where the proposals will be considered and voted upon. The proxy statement and notice of the special meeting were scheduled to begin mailed to shareholders on or about February 27, 2006.

The single proposal to be considered by shareholders at the meeting is an authorization for the Company's Board of Directors to withdraw S3 Investment Company's election to be treated as a business development company pursuant to Section 54(c) of the Investment Company Act of 1940.

"We are pleased to have filed the Definitive 14A, so that shareholders can now determine the future structure of the Company," said Jim Bickel, chairman and chief executive officer of S3 Investment Company, Inc. "We hope that as many shareholders as possible will attend the special meeting but ask that all shareholders complete and return their proxies to avoid additional delays and the cost of an extended proxy process."

As was repeatedly discussed over the process of filing Preliminary and Definitive Proxy Statements, the Company decided to propose a withdrawal of its business development company election because it determined that in the current environment S3 would be better served to focus its efforts on the operation of businesses rather than act as a passive investor.

In consideration of the planned future operations of the Company and its existing operations, the Board evaluated and discussed the feasibility of S3 continuing as a business development company. The Board believes that given the changing nature of the Company's business and investment focus from investing, reinvesting, owning, holding, or trading in

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## Greetings from the CEO

February 28, 2006

*The beginning of the 2006 calendar year has been an extremely busy time for S3 Investment Company, with several ongoing topics being addressed in January and February. This issue of our newsletter reviews the major events of the last two months, and I am pleased to have this opportunity to address S3 shareholders here for the very first time as the Company's C.E.O.*

*First and foremost for S3 at this time is the upcoming Special Meeting of Shareholders to vote on the proposal to withdraw the Company's election to be regulated as a business development company under the Investment Act of 1940. This election, which was undertaken by former management in early 2004, structured S3 as only an investor, rather than an operating company with an active hand in the functioning of its subsidiary companies.*

*As we have discussed in previous newsletters and press releases, S3's current Board of Directors has decided that it is in the best interests of the Company to withdraw this election. As a result, a 14A Definitive Proxy Statement has been filed and a Special Meeting of Shareholders has been scheduled for April 5, 2006. Shareholders are asked to complete and return their proxies with a vote on the proposal, so that the future structure of the Company can be determined.*

*The Board has recommended an affirmative vote on the proposal, but it is the Company's focus to ensure that S3 does not have a protracted and costly proxy process due to the lack of a quorum at the April 5th meeting. Without a quorum, no valid shareholder business can be conducted and the meeting will need to be adjourned until a later date. Additional solicitation by the Company may become necessary if a quorum cannot be achieved within a specific timeframe.*

*S3 will issue news on a regular basis reporting the progress of the proxy process and alerting shareholders as the mailing is completed. Of particular concern are stockholders whose shares are held by brokers and who will not receive their proxies directly. We ask that those shareholders stay abreast of the news issued by S3 and be prepared to contact their brokers to ensure they receive their proxies.*

*There is much to be optimistic about regarding SINO UJE and Redwood Capital, and we hope that shareholders are as enthusiastic as we are as these two companies grow and return value to S3. As it relates to the BDC withdrawal, becoming an operating company should provide a number of advantages to S3 and its shareholders, some of which I address in answering the Investor Forum question on page 3 of this newsletter.*

*Best regards,  
Jim Bickel - Chief Executive Officer*

## Shareholder Meeting Scheduled

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investment securities toward that of an operating company whose focus will be on acquisitions of controlling investments in operating companies and assets, that the regulatory regime governing business development companies is no longer appropriate and will hinder the Company's future growth.

"What this explanation essentially means is that the S3 Board of Directors feels that by taking a more direct role in the operations of SINO UJE and Redwood Capital, there will be a greater benefit to S3 shareholders," commented Mr. Bickel. "Moreover, SINO UJE and Redwood Capital will become more closely tied to S3, and their successes will essentially become our successes. Suffice it to say, we feel very good about making these two growing companies our primary focus as we move forward as an operating company.

"We were hoping to have the meeting behind us by the beginning of 2006, so we could turn our attention solely to the growth of SINO UJE and Redwood Capital, but we are now that much closer to having this proposal addressed by the Company's shareholders. We hope shareholders will recognize the importance of returning their proxies, no matter how they intend to vote on the withdraw of S3's BDC election, so we do not have to go through multiple adjournments and rescheduling of the special meeting," stated Mr. Bickel.

"It is no secret that S3 has a significant number of shares of common stock currently issued and outstanding, and management realizes that it will take a concerted effort to reach a majority of votes represented at the meeting or by proxy for a quorum will be present. Without a quorum, no business can be conducted, and S3 will be required to continue the proxy process," Mr. Bickel added.

Shareholders who have questions about the shareholder meeting, the proxy process or do not receive a proxy once the mailing process is complete are encouraged to contact S3 by telephone at 951-587-8072 or by email at [investors@s3investments.com](mailto:investors@s3investments.com).

S3 plans to keep shareholders apprised of the proxy distribution process through regular press releases over the next several weeks. Shareholders who hold their stock in certificate form should receive their proxies directly, while those whose shares are held in "street name" by a broker or other financial institution should receive their proxies through those institutions.

All statements included in this newsletter, including statements regarding potential future plans and objectives of S3 Investments are forward-looking statements. Such statements are necessarily subject to risks and uncertainties, some of which are significant in scope and nature beyond S3's control. There can be no assurance that such statements will prove accurate. Actual results and future events could differ materially from those anticipated in such statements depending on many factors. Historical results are not necessarily indicative of future performance.

## Investor Forum

The Investor Forum addresses a question submitted by one or more of the Company's shareholders during the previous month. The question below was answered by S3 Investment Company's chief executive officer, Jim Bickel.

**Q. With the 14A Definitive Proxy Statement finally being filed, what impact is this going to have on shareholders, assuming the BDC withdrawal passes?**

A. The structural change of S3 from a business development company - essentially an investment fund - with two portfolio investments to an operating company with two subsidiaries impacts S3 shareholders in several specific ways.

First, shareholders should gain greater insight into the financial conditions of SINO UJE, Ltd. and Redwood Capital, Inc. Business development companies cannot consolidate the financials of portfolio investments into their quarterly and annual reports filed with the S.E.C. Instead, portfolio investments are reported as assets with an assigned "fair value." Taking a fairly conservative approach, S3 has valued its investments at the value of the capital invested into them by S3, rather than projecting a more ambitious value based on revenues or another financial valuation formula. In the future, the consolidated financials will reflect actual sales revenues and corresponding operating costs.

There is also the more psychological impact of making SINO UJE and Redwood Capital subsidiaries of S3, with the expectation that S3 will have a greater role in the operations of these two companies. S3 becomes a company with businesses operating in China, both of which are increasing their respective market share in one of the most robust economies in the world. Shareholders will be invested in SINO UJE and Redwood Capital, rather than being invested in a company that is invested in SINO UJE and Redwood Capital. This may seem to be just semantics, but it will associate S3 shareholders more directly with the Company's subsidiaries and this can be used to attract additional interest in the public markets - especially to large blocks of investors who are intrigued by companies successfully doing business in China.

If shareholders have additional questions or would like to discuss this issue further, please contact our Investor Relations representatives at 951-587-8072 or investors@s3investments.com.

## S3 Reviews Major Equipment Orders for SINO UJE

Orders for Ulrich GmbH & Co. injector systems and products for other key suppliers of SINO UJE, Ltd. were strong during the last half of 2005 and have grown in the first months of 2006, the Company recently reported. Customers for these orders included Chinese hospitals and major equipment manufacturers, such as GE Medical Systems, Siemens and Philips.

There were 28 orders taken for Ulrich injector systems during the period from March to December 2005, with 23 of the orders delivered by the end of 2005. In January 2006, SINO UJE received multiple orders for the Ulrich products and exceeded the best single month sales mark for Ulrich injector systems during 2005.

SINO UJE is in the business of distributing high-tech medical and industrial products to markets throughout China. The company purchases products from Original Equipment Manufacturers (OEMs) in North America, Europe and Japan and re-sells the equipment to end users through its distribution network in China.

Ulrich ([www.ulrich-uhl.de/eng/start.html](http://www.ulrich-uhl.de/eng/start.html)) is a world leader in the design and manufacture of injector systems for medical imaging applications. The injector systems are used for high tech CT and MRI equipment that allow medical practitioners to see inside a patient's body more effectively than previous technologies and less invasively than exploratory surgeries.



An Ulrich CT Injector

"SINO UJE had an extremely busy year in 2005, completing not only these 28 orders for the Ulrich injector

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### S3 Investment Company Portfolio



[www.sinouje.com](http://www.sinouje.com)

51% EQUITY INTEREST



Redwood 紅  
Capital 木

[www.redcapinc.com](http://www.redcapinc.com)

100% EQUITY INTEREST

## Profile: New SINO UJE Supplier - Weima GmbH

In late 2005, S3 portfolio investment company, SINO UJE, Ltd. received its first order for equipment from a new European equipment supplier, Weima GmbH, a worldwide leader in shredding technology and briquetting solutions.

Weima, which is headquartered in Ilsfeld, Germany, has developed a wide range of high performance plastic, wood and substitute fuel shredders as well as briquette press machines that cover the needs of a broad market. With over 20 years experience, Weima has over 15,000 machines installed worldwide and office locations in Germany, England, France, and the United States.

China's sheer size, population and vibrant economy makes it one of the most attractive new markets for companies seeking growth in their customer bases. By adding dis-tribution into China, these companies tap into an enormous market that has maintained relatively steady growth over decades.

The first Weima order, which was placed with SINO UJE in December 2005, is for a granulator that is expected to be delivered in April 2006.



**Weima's granulator solutions are considered among the best in the industry**

"We are pleased to add yet another world leader to the SINO UJE supplier network and especially happy to have received the first order for a Weima product so quickly," said Jim Bickel, S3 Investment Company's chief executive officer, upon announcing the first Weima December order. "China is clearly an enormous market for western equipment manufacturers, and we expect that Weima's products will be well-represented by SINO UJE as it introduces this new supplier into its distribution network.

"Each new supplier that SINO UJE represents adds to its catalogue of products, broadening its appeal as a major distributor in the China market. Even more significant is that the larger the number of products that SINO UJE represents, the greater the company's revenue potential becomes," added Mr. Bickel.

## Major Equipment Orders for SINO UJE Increase in 2006

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systems, but also distributing products for other major suppliers, including Process Sensors Corp., a leading manufacturer of state-of-the-art moisture gauges and sensors, and PLAST-CONTROL, the leading manufacturer of automation systems for the plastics extrusion industry," commented Mr. Bickel. "Orders for Process Sensor Corp. gauges were strong all year, with SINO UJE taking multiple orders in virtually every month from May to December 2005. The Ulrich injector system orders were also extremely consistent, with orders placed in every month from March through December.

"2006 has begun in a similar fashion, with SINO UJE receiving orders from its suppliers at a pace that indicates that it will outpace its 2005 performance. Clearly, this is good news for S3 as it moves to make SINO UJE an operating subsidiary through its proposed withdrawal of its BDC election. Increased sales and the resulting increase in revenues for SINO UJE will only improve the financial outlook of S3," added Mr. Bickel.

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## S3 Makes Changes to Management Team Including Appointment of New CEO

On February 01, 2006, S3 announced several changes to the Company's management team, including the appointment of a new chief executive officer and a new independent director. James Bickel was appointed chief executive officer of S3, replacing Chris Bickel, who will continue in the capacity of chairman of the Board of Directors and will focus his attention on the Company's operations in China.

James Bickel, who had served as vice president of business development of S3 subsidiary SINO UJE and will continue in that capacity, has been employed by SINO UJE for five years and has a working knowledge of the China business landscape. James Bickel is also well-versed in the operations and management of U.S. public companies, having served as a director and in other management positions in several publicly traded firms.

The Company also accepted the resignation of Theodore Tanski as a member of the Board of Directors and appointed Douglas Perkins as an independent member of the Board of Directors to fill the vacancy created by Mr. Tanski's resignation. Mr. Perkins, an experienced manager and entrepreneur with a strong background in franchise licensing, will also serve as a member of the Audit Committee and chairman of the Investment Committee.