

S3 Investment Company

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OTC BB:SEIH

September 2005 Newsletter

File 14A Preliminary Proxy Statement Filed

On September 1, 2005, S3 Investment Company announced the filing of a 14A Preliminary 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.

Shareholders of record will be invited to attend a special meeting where the proposals will be considered and voted upon. S3 Investments expects that the meeting date will be in September, and a subsequent 14A Definitive Proxy Statement that includes the meeting date, time and location will be filed with the S.E. C. and sent to shareholders of record.

"We hope that as many shareholders as possible will attend the special meeting once a date, time and location are finalized, but it is imperative that all shareholders complete and return their proxies once the Definitive 14A is filed, so that they have a voice in determining the future of the company," commented Chris Bickel, chairman and chief executive officer of S3 Investment Company, Inc.

The proposal to be considered by shareholders at the special 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.

The company has determined that in the current environment it 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 has evaluated and discussed the feasibility of the company's continuing as a business development company. The board believes

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Positive Effect Expected From China's Currency Revaluation

S3 Investment Company's chairman and chief executive officer, Chris Bickel, released a statement on August 23rd outlining how recent action by China's central bank is expected to have a positive impact on the company's two portfolio investments doing business in China.

On July 21, 2005, the central bank announced that it was strengthening the Chinese yuan, which is now pegged at 8.11 to one U.S. dollar, down from 8.27. It was also announced that in the future, the exchange rate will be made in reference to a basket of currencies, rather than just the U.S. dollar.

"These moves by the central bank are expected to produce both positive and negative results for U.S. companies doing business in China, but as it relates to our portfolio investments, the good news far

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Bickel Discusses \$800,000 Quarterly Revenue Numbers For SINO UJE

On August 18th, chairman and chief executive officer, Chris Bickel, issued this statement discussing the financial performance of portfolio investment SINO UJE, Ltd., during the most recent completed quarter.

"The fiscal quarter referenced in these numbers ended almost two months ago, but we feel that it is important to provide shareholders with as much information as possible on our operating subsidiaries, and how they are now positioned to provide return for S3 shareholders."

During the second calendar quarter of 2005,

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SINO UJE Quarterly Figures

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SINO UJE reported gross revenues of over \$800,000 (USD) with a net profit of approximately \$133,000. Over the same period in 2004, SINO achieved just under 200,000 in revenues.

By the middle of 2005, SINO had reached the \$1 million mark in gross revenue for the year and was on pace to exceed the projections made for this portfolio investment at the beginning of 2005.

“The capital provided by S3 since its acquisition of SINO UJE has made it possible for the company to expand its business and significantly improve its performance over the same period last year. SINO has achieved profitability and is expected to continue growing its top and bottom-line numbers. We anticipate that SINO’s ongoing expansion of sales to new market sectors will bring in even better results for the remaining quarters in calendar year 2005,” added Bickel

Detailed financial information on the SINO UJE portfolio investment will be included in the company’s upcoming 10-K Annual Report, scheduled for September.

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. The revenue numbers represent sales in the medical and industrial divisions of the business and S3 Investments is projecting continued growth throughout the year as its expansion program for SINO UJE is executed. ✦

Proxy Statement

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that, given the changing nature of the company’s business and investment focus from investing, reinvesting, owning, holding, or trading in 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.

S3 Investment Company has been notified by a staff attorney at the Securities and Exchange Commission that an agreement the company entered into with YaSheng Group has resulted in the creation of *senior securities* as defined by the Investment Company Act of 1940. The staff of the S.E.C. believes that the agreement stipulating YaSheng Group will maintain a 5% non-dilutive interest in the common stock of the company gives YaSheng Group a senior position. This interpretation could create instances where the company would not be in compliance with Section 18 of the Investment Company Act of 1940, which requires that the company maintain net assets to senior security coverage of at least 200%.

Chris Bickel commented, “While we believe that the company remains in compliance with the Investment Company Act of 1940, the board has determined that in the current environment, continuing to be regulated as a business development company is no longer appropriate and will hinder the company’s future growth. The board believes that given the growth of subsidiary holdings SINO UJE, Ltd., and Redwood Capital, Inc., the company would be better served to focus its efforts on the operation of these businesses, rather than act as a passive investor.” ✦

Results Of China Trip

In early August Chris Bickel gave a progress report to the S3 Board of Directors based on his most recent trip to China in support of two of the company’s two portfolio investments, SINO UJE, Ltd., and Redwood Capital, Inc.

A highlight of the trip was Bickel’s participation in a board of director’s meeting for SINO UJE’s China joint venture company in partnership with Fagus-GreCon Greten GmbH & Co., a world market leader of spark detection and extinguishing systems and process measurement systems for the wood panel industry.

In mid-2004, SINO UJE and GreCon agreed to form a Wholly Owned Foreign Enterprise (WOFE), which was designed to immediately maximize the sales and service capability for all GreCon’s products in China. The board meeting was a mid-year review and planning session for the last two quarters of the 2005 calendar year.

The WOFE classification affords the joint venture company a number of advantages when operating in China, one of which is allowing it to accept local currency for products and services. This is not the case for most other foreign companies that

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Revaluation

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outweighs any negative impact," commented Bickel.

"For SINO UJE, the cost of purchasing products from U.S. and European suppliers has gone down, since it uses Chinese currency to make these purchases. In essence, SINO's buying power has increased by 2%.

"Since SINO's sales prices in China remain the same, the revenue produced by each sale has also increased by 2% when converted to U.S. dollars. As a result, SINO UJE experiences a 4% gross margin effect from this exchange rate adjustment, a difference that will show in the company's bottom line.

"For our Redwood Capital subsidiary, the bad news is that an investment of 10 million U.S. dollars has obviously been devalued by 2% when compared to the Chinese yuan. The good news is that the revenue and profit numbers for

Redwood's Chinese clients have just increased by 2% when they are translated into U.S. dollars, giving greater economic strength to the client's financial numbers. We have found that Redwood's U.S. investment partners are greeting the exchange rate adjustment as excellent news, and it has only increased their enthusiasm for investments into private Chinese companies, even with the lower value of each U.S. dollar invested in this market.

"The bottom line is that the yuan needed to be revalued and the fact that the central bank made this move bodes well for China and its economy. By acting as a world economic partner, China will engender confidence from foreign investors and foster greater stability in the global economy. As active participants in China's economy, SINO UJE and Redwood welcome this move and look forward to the positive impact it will have on their businesses." ✦

Progress Report

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operate within China, since they can only do business directly with customers that are licensed to deal in foreign currencies.

Bickel commented, "In addition to the other important work that was done during this visit, we are pleased to have gained greater insight into the progress of SINO's GreCon joint venture and planning for its upcoming fiscal quarters.

"SINO UJE completed its investment in the joint venture, and its 40% stake in the GreCon WOFE is expected to increase in value as the business grows and revenue increases.

"We anticipate updating S3 investors on the progress of the GreCon WOFE on a regular basis, as well as continuing our other reporting related to the SINO UJE subsidiary."

Over the past several weeks, Chris Bickel also assisted its portfolio companies in a number of areas, including the completion of Redwood's due diligence process for investment banking client, Xingye Copper and working to bring Dalian Fushi through the reverse merger and financing processes. ✦

S3 Files Form 4 On CEO Stock Purchase

S3 Investment Company, Inc. announced on August 16th that a Form 4 Statement of Change in Beneficial Ownership of Securities has been filed with the Securities and Exchange Commission reporting the purchase of 3,817,000 shares of common stock by chairman and chief executive officer, Chris Bickel, which he purchased on August 11th in the open market at a price of \$.00102 per share.

"The revenue growth of our two active portfolio investments, SINO UJE and Redwood Capital, and the strong performance of both of these companies over the past several months has only strengthened our belief that S3 is building value for its shareholders," com-

mented Bickel. "After monitoring the progress of SINO and Redwood during our most recent trip to China, we anticipate that each will continue to see significant deal flow through the foreseeable future and are expected to far surpass 2005's revenue projections in 2006."

"Management remains firmly committed to supporting its common stockholders, and will consider additional stock purchases in the future. As we stated earlier this year, if the company continues to believe the company's common stock is undervalued at its current trading price, S3 will consider all possible remedies, including a stock buyback plan." ✦

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