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If you have sold all your shares in Senyuan International Holdings Limited, you should at once hand this circular to the purchaser or to the bank, licensed securities or other agent through whom the sale was effected for transmission to the purchaser.

senyuan

SENYUAN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3333)

Executive Directors:

Tsang Shui Ching, Patrick (*Chairman*)

Zhou Anmin (*Chief Executive Officer*)

Lou Chong Wei

Shu Yi Jin

Registered Office:

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town, Grand Cayman

British West Indies

Independent Non-Executive Directors:

Keung Ping Yin, Raymond

Wong Yiu Sun, Peter

Lu Yan Sun

16 August 2006

To the shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

It was announced on 27 July 2006 that Senyuan International Holdings Limited (the "Company") through its wholly-owned subsidiary, Senyuan International Investments Limited, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with the Vendors (as defined below) on 27 July 2006 pursuant to which the Company shall acquire from the Vendors 100% interest in Team Billion Investment Limited ("Team Billion") and the Shareholders' Loan (as defined below) in the aggregate sum of HK\$7,800,000 for a total consideration of HK\$7,800,000 (the "Acquisition").

The Acquisition constitutes a discloseable and connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

SALE AND PURCHASE AGREEMENT

Parties:

Purchaser: Senyuan International Investments Limited, a wholly-owned subsidiary of the Company (the "Purchaser")

Vendor: Mr. Tsang Shui Ching Patrick ("Mr. Tsang") and Mr. Zhou Anmin ("Mr. Zhou") (Mr. Tsang and Mr. Zhou collectively the "Vendors")

Assets to be Acquired:

- (i) 100% interest in Team Billion of which 50% will be from Mr. Tsang and 50% will be from Mr. Zhou.
- (ii) shareholders' loan (the "Shareholders' Loan") in the aggregate sum of HK\$7,800,000 of which HK\$3,900,000 is owed by Team Billion to Mr. Tsang and HK\$3,900,000 is owed by Team Billion to Mr. Zhou. The Shareholders' Loan was interest free, unsecured and payable on demand. Upon completion of the Acquisition, the Shareholders' Loan in the aggregate sum of HK\$7,800,000 will be owed by Team Billion to the Purchaser and will remain interest free, unsecured and payable on demand.

Consideration:

The total consideration for the Acquisition (the "Consideration") is HK\$7,800,000.

The Consideration is arrived at with reference to the aggregate amount of the net asset value of Team Billion and the Shareholders' Loan. The Consideration represents approximately 2.2% discount to the aggregate amount of the net asset value of Team Billion and the Shareholders' Loan. The directors of the Company (the "Directors"), including the independent non-executive Directors, consider that the Consideration was determined after arm's length negotiations between the parties and are on normal commercial terms.

The Acquisition will be funded by internal resources of the Company and its subsidiaries (the "Group").

Payment Terms:

The Consideration has been satisfied by cash upon completion.

Conditions:

The Acquisition is not subject to any condition.

Completion:

Completion of the Acquisition has taken place.

REASONS FOR THE ACQUISITION

The Directors consider that the Acquisition is in line with the business strategy of the Company to extend into the business of sale of switchgears and believe that the Acquisition provides the Company with an opportunity to widen its earnings base and increase its revenue.

Therefore, the Directors, including the independent non-executive Directors, consider that the terms of the Acquisition are fair and reasonable and in the interests of the shareholders of the Company as a whole.

EFFECT ON EARNINGS, ASSETS AND LIABILITIES

Team Billion had an audited consolidated net asset value of HK\$175,726 as at 30 June 2006 and recorded an audited consolidated net loss (before and after tax) of HK\$31,100 for the 13-month period ended 31 December 2005 and an audited consolidated net loss (before and after tax) of HK\$31,655 for the 6-month period ended 30 June 2006. Upon the completion of the Acquisition, Team Billion became a wholly-owned subsidiary of the Company and it is expected that there will not be any material impact on the earnings of the Group and the net asset value of the Group will be slightly improved as a result of the Acquisition.

DISCLOSEABLE AND CONNECTED TRANSACTION

The Company is owned as to 75% by Senyuan International Limited which is owned as to 50% and 50% by Lanling Electrical Ltd. ("Lanling Electrical") and Tai Ah International Limited ("Tai Ah International") respectively. Lanling Electrical is wholly-owned by Mr. Zhou. Tai Ah International is owned as to 75% by Mr. Tsang. Both Mr. Tsang and Mr. Zhou are directors of the Company. They are therefore connected persons of the Company under the Listing Rules.

Since (i) the assets ratio of the Acquisition exceeds 5% but less than 25%; and (ii) the revenue ratio, the gross profits ratio and the consideration ratio of the Acquisition are less than 2.5% and the Consideration is less than HK\$10,000,000, the Acquisition constitutes a discloseable and connected transaction for the Company under the Listing Rules and is exempt from independent shareholders approval requirement but subject to the reporting and announcement requirements under Chapter 14 and 14A of the Listing Rules.

THE COMPANY

The Group is principally engaged in design, development manufacturing and marketing of vacuum circuit breakers and other components of switchgears.

TEAM BILLION

Team Billion is a company incorporated in Hong Kong with limited liability on 17 December 2004. Its principal business is investment holding. Its principal asset is the investment in 常州蘭陵電器有限公司 (Changzhou Lanling Electrical Appliance Company Limited*) (“CLEACL”). Its issued and paid-up share capital is HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

CLEACL was established on 28 December 2004 as a wholly-foreign-owned enterprise in the People’s Republic of China and has been wholly-owned by Team Billion since its establishment. CLEACL’s registered capital is US\$1 million and has been fully paid-up. The concession period for the operations of CLEACL is 12 years. Its principal business is manufacture and sale of gas-insulated switchgears. It commenced operations in May 2006.

Based on the latest audited consolidated accounts of Team Billion, it has a net asset value of HK\$175,726 as of 30 June 2006, its net loss for the 6-month period ended 30 June 2006 before and after tax is HK\$31,655 and its net loss for the 13-month period ended 31 December 2005 before and after tax is HK\$31,100.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully
For and on behalf of the Board of
Senyuan International Holdings Limited
Tsang Shui Ching, Patrick
Chairman

* *The English name is for identification purpose only.*

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF DIRECTORS' INTERESTS

As at 16 August 2006 (the "Latest Practicable Date"), the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following shares of the Company and of its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange:

(a) Company

Long positions in the shares of the Company

Name of Director	Nature of Interests	Number of Shares	Percentage
Mr. Tsang	Corporate interest (Note)	228,750,000	75%
Mr. Zhou	Corporate interest (Note)	228,750,000	75%

Note: As at the Latest Practicable Date, these shares were owned by SY International Limited ("SY International") the issued share capital of which was owned as to 50% and 50% by Lanling Electrical and Tai Ah International respectively. Lanling Electrical was wholly owned by Mr. Zhou. Tai Ah International was owned as to 75% by Mr. Tsang. Mr. Zhou and Mr. Tsang were deemed to be interested in these shares by virtue of their interest in Lanling Electrical and Tai Ah International respectively pursuant to Part XV of the SFO.

(b) Associated corporation

Long positions in the shares of the associated corporation of the Company

SY International

Name of Director	Nature of Interests	Number of Shares held in the Associated Corporation	Percentage
Mr. Tsang	Corporate interest (Note 1)	1	50%
Mr. Zhou	Corporate interest (Note 2)	1	50%

Notes:

1. As at the Latest Practicable Date, Tai Ah International was owned as to 75% by Mr. Tsang. Mr. Tsang was deemed to be interested in the one share held by Tai Ah International in SY International by virtue of Part XV of the SFO.
2. As at the Latest Practicable Date, Lanling Electrical was wholly owned by Mr. Zhou. Mr. Zhou was deemed to be interested in the one share held by Lanling Electrical in SY International by virtue of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, the following persons had an interest in the following long positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV 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:

Long positions in the shares of the Company

Name	Number of Shares	Percentage
SY International	228,750,000 <i>(Notes 1 and 2)</i>	75%
Tai Ah International	228,750,000 <i>(Notes 1 and 2)</i>	75%
Lanling Electrical	228,750,000 <i>(Notes 1 and 2)</i>	75%
Mr. Tsang	228,750,000 <i>(Note 3)</i>	75%
Ms. Lou Bing	228,750,000 <i>(Note 3)</i>	75%
Mr. Zhou	228,750,000 <i>(Note 4)</i>	75%
Ms. Wu Tong	228,750,000 <i>(Note 4)</i>	75%

Notes:

- As at the Latest Practicable Date, SY International was owned as to 50% and 50% by Lanling Electrical and Tai Ah International respectively. Therefore, both of Lanling Electrical and Tai Ah International were deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO.
- As at the Latest Practicable Date, Mr. Tsang and Mr. Zhou were directors of SY International. Mr. Tsang was a director of Tai Ah International. Mr. Zhou was a director of Lanling Electrical.
- As at the Latest Practicable Date, Tai Ah International was owned as to 75% by Mr. Tsang. Mr. Tsang was deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO. Ms. Lou Bing, being Mr. Tsang's spouse, was deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO.
- As at the Latest Practicable Date, Lanling Electrical was wholly owned by Mr. Zhou. Mr. Zhou was deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO. Ms. Wu Tong, being Mr. Zhou's spouse, was deemed to be interested in the 228,750,000 shares held by SY International under Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as was known to any Director or chief executive of the Company, no person had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, 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.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into, any service contract with the Company or any subsidiary of the Company which does not expire or is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in, apart from the Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with business of the Group.

LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

GENERAL

- (a) The secretary and the qualified accountant of the Company is Mr. Wong Kwok Wai Allan, who is an associate of The Institute of Bankers (London), a Certified Practising Accountant of CPA (Australia) and a fellow of The Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is situated at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.
- (c) The head office of the Company is at 1 West Hengtanghe Road, External-oriented Agricultural Development Zone, Changzhou Municipality, Jiangsu Province, The People's Republic of China.
- (d) The registrar and the transfer office of the Company in Hong Kong are Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.