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KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1215)

PROFIT WARNING

This announcement is made by Kai Yuan Holdings Limited (the “**Company**”) and together with its subsidiaries, (the “**Group**”) pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The board of directors (the “**Board**”) of the Company wishes to inform the shareholders of the Company and potential investors that the Company and its subsidiaries (the “**Group**”) is expected to record a loss for the six months ended 30 June 2010 (the “**Interim Period**”) as compared to the profit for the same period in 2009 principally due to i) the excess over cost on acquisition of a subsidiary with its associates recorded in the six months ended 30 June 2009 was only a one-off transaction, which did not recur during this Interim Period; ii) the loss arising from the Group’s associates engaged in steel manufacturing, which was mainly attributable to the significant increase in prices of raw materials needed for steel production, such as iron ores, leading to increases in production costs in the second quarter of 2010; iii) the loss arising from the Group’s heat energy supply operations, which was mainly due to a decrease in revenue subsequent to the termination of an agreement relating to the granting of certain operating rights related to pipeline connection services by a subsidiary of the Group to a third party, which was disclosed in the 2009 annual report of the Group; and iv) increase in administrative expenses largely due to an increase in share-based payments resulting from share options granted during the Interim Period. The information contained in this announcement is based on the preliminary review on the management accounts of the Group, which are subject to finalization and review by the Company’s auditors and the Board. The full interim results of the Group for the six months ended 30 June 2010 are expected to be released by the end of August 2010.

Shareholders of the Company and potential investors are advised to read the interim results announcement of the Company when it is published.

Shareholders and potential investors should exercise due care in their dealing in the shares of the Company.

By Order of the Board
Kai Yuan Holdings Limited
Yip Kar Hang, Raymond
Executive Director and Chief Executive Officer

Hong Kong, 13 August 2010

As at the date of this announcement, the Board comprises Mr. Hu Yishi, Mr. Yip Kar Hang, Raymond and Ms. Kwong Wai Man, Karina (all being executive directors), Mr. Hu Jin Xing and Mr. Xue Jian (both being non-executive directors) and Mr. Tam Sun Wing, Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun (all being independent non-executive directors).