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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 year ended 31 December 2010 (the “**Year**”) as compared to the profit for the year ended 31 December 2009 principally due to i) the excess over cost on acquisition of a subsidiary with its associates recorded in 2009 was only a one-off transaction, which did not recur during this Year; ii) the decrease in share of profit from the Group’s associates engaged in steel manufacturing, which was mainly attributable to reduced profit margins as a result of increase in production cost; iii) the loss from the Group’s heat energy supply operations, which was mainly due to a decrease in revenue in pipeline connection services, and certain impairment provision of assets made by a subsidiary; and iv) increase in administrative expenses largely due to an increase in share-based payments resulting from share options granted during the Year. 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 final results of the Group for the Year ended 31 December 2010 are expected to be released by the end of March 2011. Shareholders of the Company and potential investors are advised to read the final 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
Kwong Wai Man, Karina
Executive Director

Hong Kong, 4 March 2011

As at the date of this announcement, the Board comprises Mr. Xue Jian and Ms. Kwong Wai Man, Karina (both being executive directors), Mr. Hu Yishi and Mr. Hu Jin Xing (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).