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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 Group is expected to record a significant increase in loss for the year ended 31 December 2011 (the “**Year**”) as compared to the loss for the year ended 31 December 2010. The expected increase in level of loss for the Year was principally due to share of loss from the Group’s associates engaged in steel manufacturing and trading in the PRC as the result of the downturn of steel market and increase in prices of raw materials as well as other production costs, in particular in the fourth quarter of 2011. 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 will be disclosed in detail in the 2011 Annual Report of the Company. 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
Law Wing Chi, Stephen
Executive Director

Hong Kong, 1 February 2012

As at the date of this announcement, the Board comprises Mr. Xue Jian and Mr. Law Wing Chi, Stephen (both being executive directors), Mr. Hu Yishi (being non-executive director) and Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi (all being independent non-executive directors).