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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)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN FAME RISEN DEVELOPMENT LIMITED

DELAY IN DESPATCH OF CIRCULAR

AND

RESUMPTION OF TRADING

THE ACQUISITION

The Board announced that on 5 January 2009, the Company entered into the Agreement with the Vendors, pursuant to which, among other things, the Vendors conditionally agreed to sell and the Company conditionally agreed to acquire the entire issued share capital of the Target Company at a consideration of HK\$5,200 million, which shall be settled by the allotment and issue of 2,000,000,000 Consideration Shares by the Company to the Vendors at an issue price of HK\$2.6 per Consideration Share.

As at the date of this announcement, the Target Company is the foreign joint venture partner holding (i) 30% equity interest in JVE 1; (ii) 30% equity interest in JVE 2; and (iii) 25% equity interest in JVE 3 respectively, and engaged in the steel trading business. The Joint Venture Enterprises are sino-foreign joint venture enterprises which are engaged in the manufacturing and trading of steel products in the PRC.

The Consideration Shares represent approximately 28.10% of the existing issued share capital of the Company as at the date of this announcement, and approximately 21.93% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

LISTING RULES REQUIREMENT

The Acquisition constitutes a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules. The Agreement and the transactions contemplated thereunder are therefore subject to the approval by the Shareholders at the SGM by poll. To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, as Mr. Du (a 85% shareholder of HSIL which has approximately 9.95% shareholding interest in the Company as at the date of this announcement) is the chairman and the ultimate beneficial owner holding approximately 67.90% of JV Partner 1, a director of JV Partner 2, and a director of each of JVE 1, JVE 2 and JVE 3, Mr. Du and his associates (including HSIL) will abstain from voting in respect of the proposed ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder, and the allotment and issue of the Consideration Shares at the SGM.

GENERAL

A circular containing, among other things, (i) further details of the Acquisition; (ii) financial and other information on the Group; (iii) financial information on the Target Company; and (iv) the notice convening the SGM will be sent to the Shareholders. Pursuant to Rule 14.38A and Rule 14.48 of the Listing Rules, the circular is required to be despatched to the Shareholders within 21 days after the publication of this announcement, i.e. on or before 5 February 2009. However, it is currently expected that it will take about ten to twelve weeks for the Company to obtain the accountants' reports on the Target Company for inclusion in the circular, and in view of the Chinese New Year holiday, the circular can only be despatched to the Shareholders on or about 30 April 2009. An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 14.38A and Rule 14.48 of the Listing Rules.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 6 January 2009 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 16 January 2009.

THE AGREEMENT

Date

5 January 2009

Parties

Vendors: Mr. Zhang and Mr. Qi

Purchaser: the Company

Mr. Zhang is a 15% shareholder of HSIL, a company which is holding approximately 9.95% of the total issued share capital of the Company as at the date of this announcement. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, save for the aforesaid relationship, the Vendors are third parties independent of and not connected with the Group and its connected persons.

Assets to be acquired

Pursuant to the Agreement, the Vendors agreed to sell to the Company, and the Company agreed to acquire from the Vendors, their respective interest in the issued share capital of the Target Company. As at the date of this announcement, the Target Company is held as to 70% and 30% by Mr. Zhang and Mr. Qi respectively. The Target Company is the foreign joint venture partner in the Joint Venture Enterprises holding (i) 30% equity interest in JVE 1; (ii) 30% equity interest in JVE 2; and (iii) 25% equity interest in JVE 3 respectively, and is engaged in the steel trading business. The Joint Venture Enterprises are sino-foreign joint venture enterprises which are engaged in the manufacturing and trading of steel products in the PRC. The remaining equity interest in JVE 1 and JVE 2 are held as to 19% and 51% by JV Partner 1 and JV Partner 2 respectively whereas JV Partner 2 is a wholly-owned subsidiary of JV Partner 1, and the remaining equity interest in JVE 3 of 75% is held by JV Partner 2. Mr. Du, being the 85% shareholder of HSIL, is the chairman and ultimate beneficial owner of approximately 67.90% of JV Partner 1, a director of JV Partner 2, and a director of each of JVE 1, JVE 2, and JVE 3. Mr. Xue Jian, a non-executive Director, is the legal representative and director of JVE 2, director of JVE 3, and a director and vice general manager of JV Partner 2. Mr. Qi is a director of the Target Company. Save for the aforesaid relationship and that Mr. Zhang is the remaining 15% shareholder of HSIL and one of the directors of each of JVE 1 and the Target Company, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the ultimate beneficial owners of the remaining equity interest in the Joint Venture Enterprises are independent third parties not connected with the Group and its connected persons. Further information on the Target Company and the Joint Venture Enterprises is set out in the paragraph headed "Information on the Target Company and the Joint Venture Enterprises" and a shareholding chart of the Target Company is set out under the paragraph headed "Shareholding structure of the Target Company" below.

Consideration

The Consideration for the Acquisition is HK\$5,200 million, which will be satisfied by the Company by way of allotment and issue to Mr. Zhang and Mr. Qi of 1,400 million new Shares and 600 million new Shares respectively at the issue price of HK\$2.6 per Consideration Share.

The Consideration of HK\$5,200 million has been arrived at after arm's length negotiation between the Company and the Vendors with reference to the profitable track record of the Target Company and the growth potential of the Target Company and the Joint Venture Enterprises. The Consideration represented a price-to-earnings multiple of approximately 3.3 times of the unaudited net profit of the Target Company of approximately HK\$1,598.02 million (according to its revised unaudited management accounts as detailed below) for the year ended 31 December 2007 which is comparable to the price-to-earnings multiple of companies listed on the Main Board of the Stock Exchange that are engaged in similar businesses as the Target Company and the Joint Venture Enterprises. Based on the aforesaid, the Board considers that the Consideration is fair and reasonable.

The Consideration Shares represent approximately 28.10% of the existing issued share capital of the Company as at the date of this announcement, and approximately 21.93% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The Consideration Shares are not subject to any lock-up period and they are freely tradable subsequent to their issuance.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will be issued under a specific mandate proposed to be obtained at the SGM and will rank pari passu in all respects among themselves and with all other Shares in issue on the date of such issue.

Issue price of Consideration Shares

The issue price of HK\$2.6 per Consideration Share represents:

- (i) a premium of approximately 1,020.69% over the closing price of HK\$0.232 per Share as quoted on the Stock Exchange on 5 January 2009, being the last trading day prior to the signing of the Agreement and the suspension of trading in the Shares pending the release of this announcement;
- (ii) a premium of approximately 1,451.31% over the average closing price of HK\$0.1676 per Share as quoted on the Stock Exchange over the last five consecutive trading days up to and including 5 January 2009;
- (iii) a premium of approximately 1,689.40% over the average closing price of approximately HK\$0.1453 per Share as quoted on the Stock Exchange over the last ten consecutive trading days up to and including 5 January 2009; and
- (iv) a premium of approximately 2,888.51% over the audited consolidated net asset value per Share attributable to equity holders of the Company as at 30 June 2008 of HK\$0.0870 per Share.

The issue price of the Consideration Shares was negotiated on an arm's length basis between the Company and the Vendors after taking into consideration the growth potential of the Group including the positive impact as brought upon by the recently acquired heat energy supply operations and the Acquisition. Given the issue price is at a premium over the market price and net asset value of the Shares, the Directors consider the issue price per Consideration Share is fair and reasonable and in the interests of the Company and Shareholders as a whole.

Conditions precedent

Completion of the Acquisition is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

- (i) the Company having completed its due diligence (including without limitation, legal, financial and commercial aspects) in respect of the Target Company and the Joint Venture Enterprises, and the results of which are satisfactory and acceptable to the Company in all respects;
- (ii) the passing by the Shareholders of all resolutions necessary at the SGM to approve the allotment and issue of the Consideration Shares and the transactions contemplated under the Agreement;
- (iii) the Bermuda Monetary Authority approving the allotment and issue of the Consideration Shares (if required);
- (iv) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;
- (v) the obtaining of all necessary authorisations and approvals by the Company in respect of all transactions contemplated under the Agreement; and
- (vi) the Vendors are not in breach of any of the warranties given under the Agreement prior to Completion.

The Company may from time to time waive any of the conditions set out above in writing. If any one or more of the conditions has not been fulfilled or waived by the Company on 31 December 2009 or such later date as the parties to the Agreement may agree in writing, the Agreement shall immediately thereupon lapse and be of no further effect and the parties to the Agreement shall not have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

Completion

Completion shall take place on the 7th Business Day after fulfillment or waiver (as the case may be) of all the conditions precedent.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and its financial results will be consolidated in the Group's financial statement after Completion. The Company and the Vendors agreed that Mr. Zhang and Mr. Qi will resign as directors of the Target Company upon Completion and there will not be any change to the composition of the member of the board of directors or chief executive of the Company and its subsidiaries as a result of the Acquisition.

EFFECT ON SHAREHOLDING OF THE COMPANY

The following is the shareholding table of the Company (i) as at the date of this announcement; (ii) upon completion of the Acquisition; and (iii) upon Completion and issue of such Shares upon exercise of share options and conversion rights attached to the convertible bonds in full, assuming there being no other change to the issued share capital of the Company from the date of this announcement:

Shareholders	As at the date of this announcement		Upon Completion		Upon Completion and issue of such Shares upon exercise of share options and conversion rights attached to convertible bonds in full (note 4)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Hu Yishi (note 1)	509,470,000	7.16	509,470,000	5.59	2,053,190,000	19.26
Vendors and parties acting in concert with the Vendors (note 3)						
– HSIL (note 2)	708,000,000	9.95	708,000,000	7.77	708,000,000	6.64
– Vendors	–	–	2,000,000,000	21.93	2,000,000,000	18.76
Subtotal	<u>708,000,000</u>	<u>9.95</u>	<u>2,708,000,000</u>	<u>29.70</u>	<u>2,708,000,000</u>	<u>25.40</u>
Other public Shareholders	<u>5,900,143,140</u>	<u>82.89</u>	<u>5,900,143,140</u>	<u>64.71</u>	<u>5,900,143,140</u>	<u>55.34</u>
Total	<u>7,117,613,140</u>	<u>100.00</u>	<u>9,117,613,140</u>	<u>100.00</u>	<u>10,661,333,140</u>	<u>100.00</u>

Notes:

1. Mr. Hu Yishi is the Chairman and executive Director of the Company. Of the total Shares he has interest in as at the date of this announcement, 62,540,000 Shares are held by Mr. Hu Yishi in his personal capacity and 446,930,000 Shares are held by Morich International Investments Limited, a company wholly and beneficially owned by Mr. Hu Yishi.
2. HSIL is held as to 85% by Mr. Du and 15% by Mr. Zhang, being one of the Vendors.
3. The Vendors, Mr. Du and HSIL are parties acting in concert as defined under the Takeovers Code. Assuming there being no change to the shareholding structure of the Company from the date of this announcement, the Vendors and parties acting in concert with them will in aggregate hold 2,708,000,000 Shares upon Completion, representing approximately 29.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. Save for the above, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the date of this announcement, none of the existing Shareholders is a party acting in concert with the Vendors.
4. Mr. Hu Yishi has been granted with share options to subscribe for up to 43,720,000 Shares and has entered into a subscription agreement with the Company on 26 May 2008 in relation to the subscription of the convertible notes in the principal amount of HK\$265,500,000 for which an aggregate of a maximum of 1,500,000,000 conversion Shares shall be allotted and issued upon the exercise in full of the conversion rights attaching to the convertible notes at the initial conversion price.

INFORMATION ON THE TARGET COMPANY AND THE JOINT VENTURE ENTERPRISES

The Target Company was incorporated in Hong Kong as a limited liability company on 26 June 2002. As at the date of this announcement, the Target Company is the foreign joint venture partner in the Joint Venture Enterprises holding (i) 30% equity interest in JVE 1; (ii) 30% equity interest in JVE 2; and (iii) 25% equity interest in JVE 3 respectively, and engaged in the steel trading business. The respective remaining equity interest in JVE 1 and JVE 2 are held as to 19% and 51% by JV Partner 1 and JV Partner 2 respectively where JV Partner 2 is a wholly-owned subsidiary of JV Partner 1, and the remaining equity interest in JVE 3 of 75% is held by JV Partner 2.

Each of the Joint Venture Enterprises is a non-wholly owned subsidiary of JV Partner 2, being Rizhao Steel Holding Group Company Limited (日照鋼鐵控股集團有限公司), which is one of the leading steel manufacturer in the PRC market.

JVE 1, a sino-foreign joint venture enterprise established in the PRC on 25 March 2003 and the Target Company's associated company, is principally engaged in the manufacturing and selling of wire rod, medium size wide and heavy plate, section steel and related products.

JVE 2, a sino-foreign joint venture enterprise established in the PRC on 31 March 2003 and the Target Company's associated company, is principally engaged in the manufacturing and selling of common carbon steel, low alloy steel and other steel billet.

JVE 3, a sino-foreign joint venture enterprise established in the PRC on 2 August 2006 and the Target Company's associated company, is principally engaged in the manufacturing and selling of high-end metal parts, rod and wire materials for construction, strips and related products.

For each of the two years ended 31 December 2006 and 2007, the Target Company's auditors had issued a qualified opinion on the Target Company's financial statements because the Target Company had not adopted the equity accounting method, but has adopted cost accounting method, to present the interests in associates, which practice, in the auditors' opinion, was not in accordance with Hong Kong Accounting Standard 28 "Investments in Associates" issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of the preparation of the Acquisition, the Company has requested the Target Company to prepare revised financial statements for the two years ended 31 December 2006 and 2007 taking into account adjustments due to the above matters. For illustration purpose and, subject to audit on the information, the financial information of the Target Company for the two years ended 31 December 2006 and 2007 and for the six months ended 30 June 2008 based on the revised unaudited management accounts of the Target Company as provided by the Target Company are set out as follows:

	For the six months ended 30 June 2008 (unaudited) HK\$'million	For the year ended 31 December 2007 (unaudited) HK\$'million	2006 (unaudited) HK\$'million
Turnover	486.02	1,064.95	921.94
Other income	1,554.55	1,564.70	730.27
Profit before taxation	1,575.35	1,598.02	769.62
Profit after taxation	1,575.35	1,598.02	769.62

As at 30 June 2008, the Target Company has an unaudited net asset value of approximately HK\$4,519.97 million.

Turnover of the Target Company was generated from its steel trading business and other income was mainly attributable to share of profits from the Joint Venture Enterprises. No provision for any tax liabilities has been made by the Target Company for the year ended 31 December 2006 and 2007 respectively but there has been a dispute between the Target Company and the Inland Revenue Department of Hong Kong over an offshore claim in respect of trading profits of the Target Company. In this regard, pursuant to the terms of the Agreement, tax indemnity in favour of the Company and the Target Company will be given by the Vendors upon Completion. The Company is informed by the Target Company that the operation of the trading business has been scaling down during the second half of 2008 in view of the recent global financial crisis and better deployment of the resources available to the Target Company.

Moreover, during the year ended 31 December 2007, the Target Company has received dividend from the Joint Venture Enterprises of approximately HK\$303.68 million.

Another independent auditors have been engaged to conduct an audit on the Target Company's revised management accounts and the audited financial information will be set out in the circular in relation to the Acquisition to be despatched to the Shareholders in compliance with the Listing Rules. Shareholders should note that the above financial information is subject to audit to be performed by the independent auditors and may subject to change.

REASONS FOR THE ACQUISITION

Prior to 30 June 2008, the Company and its subsidiaries were principally engaged in property investment operations and have been loss making over the past few years. As referred to in the annual report of the Company for the year ended 30 June 2008 (the "Annual Report"), the turnover of the Group for the year ended 30 June 2008 had recorded a drop of approximately 68% from approximately HK\$13.05 million for the year ended 30 June 2007 to approximately HK\$4.16 million for the year ended 30 June 2008 and the loss attributable to Shareholders had further deteriorated to approximately HK\$79.35 million for the year ended 30 June 2008.

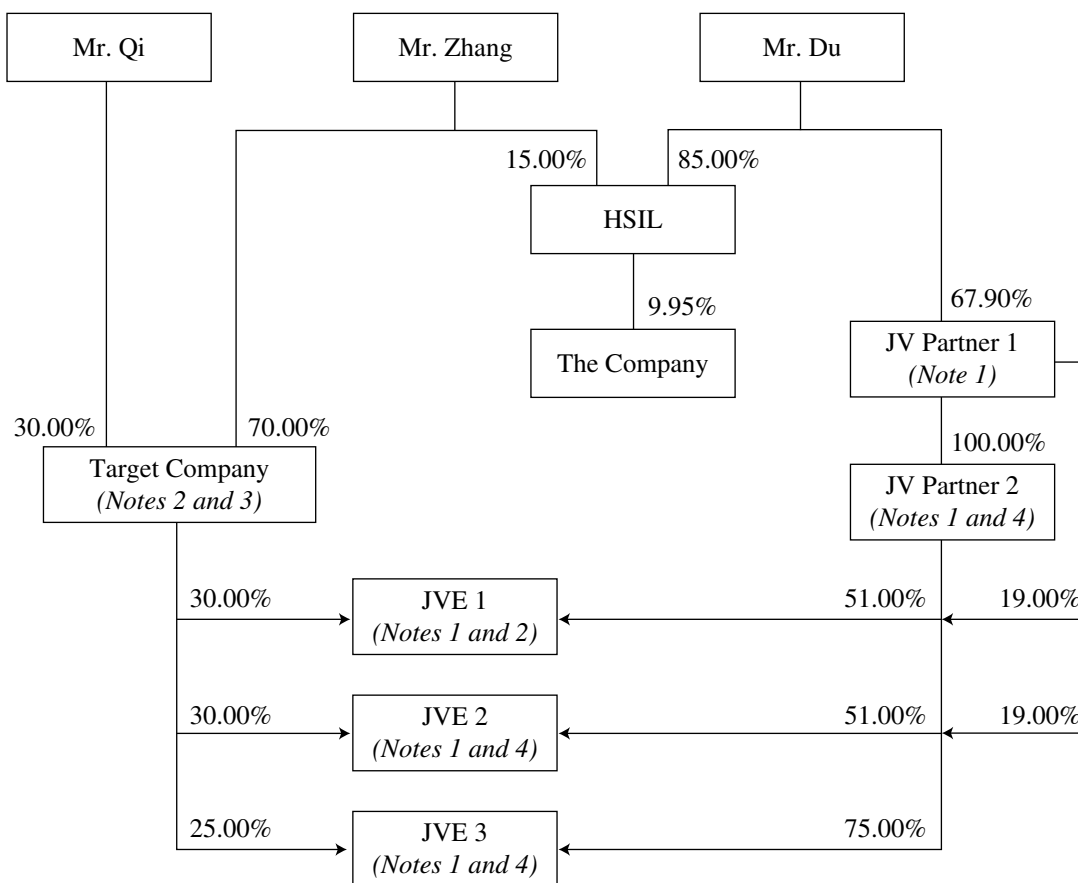
With a view to improving its operating results, the Group has been identifying suitable investment targets in the PRC to diversify its business scope in order to expand its income stream. Through the acquisition of Tianjin Heating Development Co., Ltd., a market leader in the heat energy supply industry of Tianjin, (details of which are included in the Company's circular dated 23 May 2008) on 30 June 2008, the Company has extended its business to the provision of heat energy supply to residential, commercial and industrial use in Tianjin, the PRC. Following that, the Group has commenced the evolution of its business portfolio and identified the participation in the industrial business in the PRC as a business strategy going forward. The Company considered that the Acquisition is another valuable investment opportunity for the Company to further extend its participation in the industrial business in the PRC. In assessing the feasibility of the Acquisition, the Directors noted that the steel industry in the PRC is cyclical in nature and economic downturns may decrease the market demand for and prices of the steel products of the Joint Venture Enterprises, or increases in the price of raw materials may affect the profit margins and operating results of the Joint Venture Enterprises which in turn affect the results of the Target Company. Based on the Directors' understanding from the management of the Joint Venture Enterprises, the Joint Venture Enterprises have been and will continue to closely monitor and exercise strict control in inventory management so as to minimize the possible impact of economic downturns or prices fluctuation of the steel products on their business operations. In addition, taking into consideration the leading position in the steel industry and the satisfactory and profitable track records in the past of the Joint Venture Enterprises and therefore share of profits recorded by the Target Company, handsome dividend which the Target Company received, the established reputation in the PRC steel market of the Joint Venture Enterprises, and that the investment in the Joint Venture Enterprises through the Acquisition is intended to be a long-term investment by the Company, the Directors consider that it is now an opportune moment for the Group to invest in the steel industry through the Acquisition without incurring material cash outflow and believe that the Acquisition is in line with the Company's business strategy, and would improve the results of the Group and in turn provide better return for the Shareholders. Moreover, it was recently reported that in order to ease the impact of the global financial crisis on the PRC economy, the PRC government will introduce and implement recovery programs for ten major industries, and the steel industry was one of them. The Company is optimistic on the prospect of the steel industry in light of the support given by the PRC government.

Taking into account the above factors, the Board considers that the terms of the Agreement are on normal commercial terms and fair and reasonable so far as the Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole.

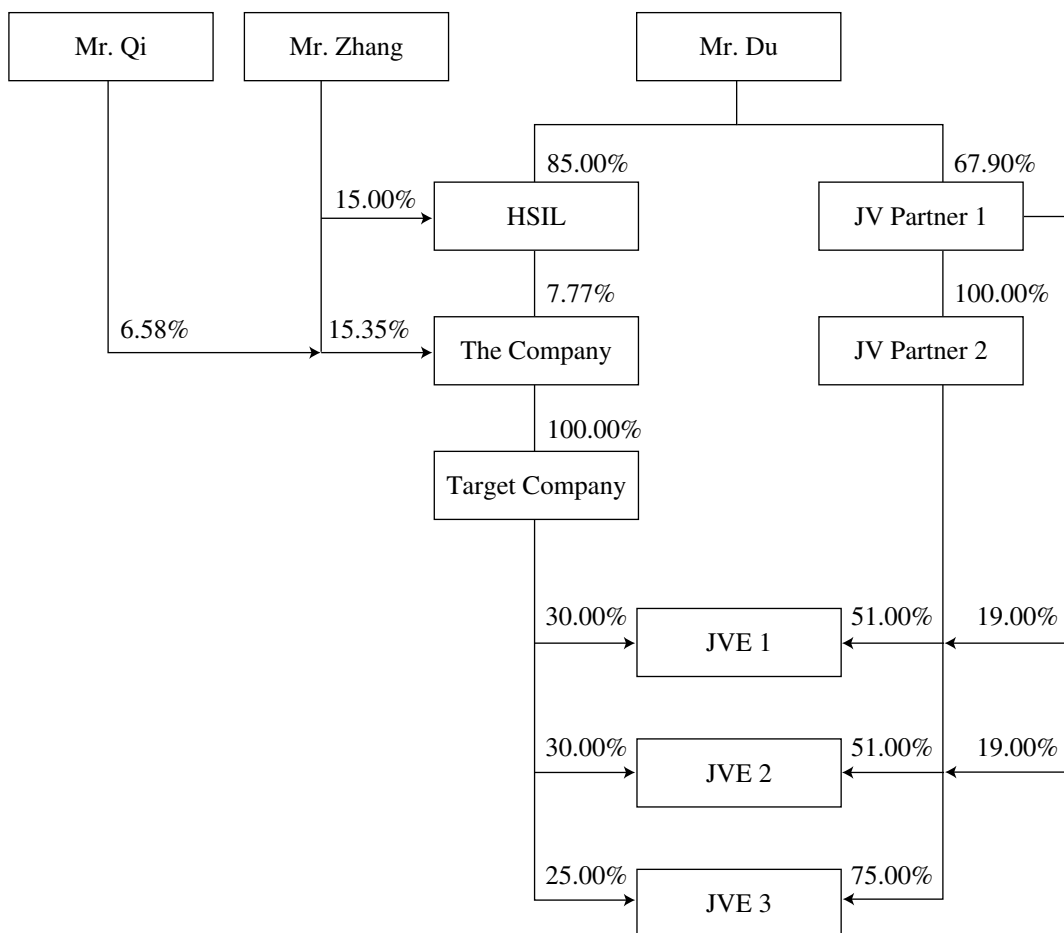
SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

The charts below set out the shareholding structure of the Target Company and the Joint Venture Enterprises (i) as at the date of this announcement; and (ii) immediately after Completion assuming that there is no change in the Company’s shareholding structure from the date of this announcement.

(i) *As at the date of announcement*



(ii) *Immediately after Completion*



Notes:

1. Mr. Du is one of the directors of JV Partner 1, JV Partner 2, JVE 1, JVE 2 and JVE 3.
2. Mr. Zhang is one of the directors of the Target Company and JVE 1.
3. Mr. Qi is one of the directors of the Target Company.
4. Mr. Xue Jian, a non-executive Director, is the legal representative and one of the directors of JVE 2, one of the directors of JVE 3, and a vice general manager and one of the directors of JV Partner 2.

LISTING RULES REQUIREMENT

The Acquisition constitutes a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules. The Agreement and the transactions contemplated thereunder are therefore subject to the approval by the Shareholders at the SGM by poll. To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, as Mr. Du (a 85% shareholder of HSIL which has approximately 9.95% shareholding interest in the Company as at the date of this announcement) is the chairman and the ultimate beneficial owner holding approximately 67.90% of JV Partner 1, a director of JV Partner 2, and a director of each of JVE 1, JVE 2 and JVE 3, Mr. Du and his associates (including HSIL) will abstain from voting in respect of the proposed ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder, and the allotment and issue of the Consideration Shares at the SGM.

GENERAL

A circular containing, among other things, (i) further details of the Acquisition; (ii) financial and other information on the Group; (iii) financial information on the Target Company; and (iv) the notice convening the SGM will be sent to the Shareholders. Pursuant to Rule 14.38A and Rule 14.48 of the Listing Rules, the circular is required to be despatched to the Shareholders within 21 days after the publication of this announcement, i.e. on or before 5 February 2009. However, it is currently expected that it will take about ten to twelve weeks for the Company to obtain the accountants' reports on the Target Company for inclusion in the circular, and in view of the Chinese New Year holiday, the circular can only be despatched to the Shareholders on or about 30 April 2009. An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 14.38A and Rule 14.48 of the Listing Rules.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 6 January 2009 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 16 January 2009.

DEFINITIONS

Unless the context requires otherwise, the following expressions shall have the following meanings in this announcement:

“Acquisition”	the proposed acquisition by the Company of the entire issued share capital of the Target Company pursuant to the Agreement
“acting in concert”	has the meaning ascribed to it in Takeovers Code
“Agreement”	the conditional sale and purchase agreement dated 5 January 2009 entered into between the Company and the Vendors in relation to the Acquisition

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which banks are open for business in Hong Kong
“Company”	Kai Yuan Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the aggregate consideration of HK\$5,200 million payable by the Company for the Acquisition
“Consideration Shares”	a total of 2,000,000,000 Shares to be allotted and issued to the Vendors pursuant to the Agreement
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HSIL”	Happy Sino International Limited, a company incorporated in the British Virgin Islands with limited liability which is holding approximately 9.95% of the total issued share capital of the Company as at the date of this announcement
“Joint Venture Enterprises”	JVE 1, JVE 2 and JVE 3
“JVE1”	日照型鋼有限公司 (Rizhao Medium Section Mill Co., Ltd.), a sino-foreign joint venture enterprise established in the PRC on 25 March 2003
“JVE2”	日照鋼鐵有限公司 (Rizhao Steel Co., Ltd.), a sino-foreign joint venture enterprise established in the PRC on 31 March 2003
“JVE3”	日照鋼鐵軋鋼有限公司 (Rizhao Steel Wire Co., Limited), a sino-foreign joint venture enterprise established in the PRC on 2 August 2006

“JV Partner 1”	京華創新集團有限公司(Jinghua Chuangxin Group Company Limited), a company established in the PRC and as to approximately 67.90% beneficially owned by Mr. Du
“JV Partner 2”	Rizhao Steel Holding Group Company Limited (日照鋼鐵控股集團有限公司), a company established in the PRC and a wholly-owned subsidiary of JV Partner 1
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Du”	Mr. Du Shuang Hua (杜雙華)
“Mr. Qi”	Mr. Qi Shi An (齊世安), being one of the Vendors
“Mr. Zhang”	Mr. Zhang He Yi (張和義), being one of the Vendors
“PRC”	the People’s Republic of China
“SGM”	the special general meeting of the Company to be convened to approve the Agreement and all transactions contemplated thereunder (including the allotment and issue of the Consideration Shares)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Codes on Takeovers and Mergers
“Target Company”	Fame Risen Development Limited, a company incorporated in Hong Kong with limited liability
“Vendors”	Mr. Zhang and Mr. Qi
“RMB”	Renminbi, the lawful currency of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

Certain English translations of Chinese names or words in this announcement are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.

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

Hong Kong, 15 January 2009

As at the date of this announcement, the Board consists of three executive Directors, namely Mr. Hu Yishi, Mr. Yip Kar Hang, Raymond and Ms. Kwong Wai Man, Karina; two non-executive Directors, namely, Mr. Hu Jin Xing and Mr. Xue Jian; and three independent non-executive Directors, namely, Mr. Tam Sun Wing, Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun.