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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)

PROPOSED CHANGE OF AUDITOR

The Board announces that Deloitte tendered its resignation as auditor of the Group with effect from 14 December 2009 and proposes to appoint EY as auditor of the Group to fill the causal vacancy following the resignation of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company, subject to the approval of the Shareholders at the SGM.

A circular containing, among others, details of the proposed change of auditor together with the notice of the SGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

The board (the “**Board**”) of directors (the “**Directors**”) of Kai Yuan Holdings Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) announces that Deloitte Touche Tohmatsu (“**Deloitte**”) tendered its resignation as auditor of the Group with effect from 14 December 2009.

On 29 May 2009, the Group completed the acquisition of the entire issued share capital of Fame Risen Development Limited, which is interested in 30%, 30% and 25% respectively in the equity interests of 日照型鋼有限公司 (Rizhao Medium Section Mill Co., Ltd.), 日照鋼鐵有限公司 (Rizhao Steel Co., Ltd.), 日照鋼鐵軋鋼有限公司 (Rizhao Wire Co., Limited) (the “**Associated JVs**”). These Associated JVs have since contributed significantly to and constituted substantial portion of the Group’s profit. Currently, the results of these Associated JVs are audited by Ernst & Young (“**EY**”).

Deloitte tendered its resignation as auditor of the Group with effect from 14 December 2009. Upon tendering its resignation as auditor of the Group, Deloitte has taken into account many factors including the professional risk associated with the audit and their available internal resources in the light of current work flows and the fact that the Company had acquired three new associates which would in future contribute a very significant portion of the Group’s financial results and position, and which would not be audited by it.

Deloitte confirmed that, save as disclosed above, there were no matters in connection with its resignation that need to be brought to the attention of holders of securities of the Company.

The Board is not aware of any matters in connection with the resignation of Deloitte as the auditor of the Group that should be brought to the attention of holders of securities of the Company. The Board would like to express its appreciation for the valuable professional services rendered by Deloitte to the Group.

As appointing a single audit firm across the Group and the Associated JVs would result in a more streamlined and efficient audit process, the Board proposes to appoint EY as auditor of the Group and to hold office until the conclusion of the next annual general meeting of the Company, subject to the approval of the shareholders of the Company (the “**Shareholders**”) at the special general meeting of the Company (the “**SGM**”) to be convened.

A circular containing, among others, details of the proposed change of auditor together with the notice of the SGM will be despatched to the Shareholders as soon as practicable in accordance with the Rules (the “**Listing Rules**”) Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited.

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

Hong Kong, 15 December 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.