

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt about this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kai Yuan Holdings Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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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  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

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A notice convening a special general meeting of Kai Yuan Holdings Limited to be held at Plaza 1 & 2, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong at 9:30 a.m. on Monday, 25 January 2010 is enclosed. A form of proxy is also enclosed.

Whether or not you are able to attend the special general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the special general meeting. Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the special general meeting or any adjourned meeting should you so wish.

31 December 2009

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

|                  |                                                                                                                                                          |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Associated JVs” | Rizhao Medium, Rizhao Steel and Rizhao Wire                                                                                                              |
| “Board”          | the board of Directors                                                                                                                                   |
| “Company”        | Kai Yuan Holdings Limited, an exempt company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange |
| “Deloitte”       | Deloitte Touche Tohmatsu                                                                                                                                 |
| “Directors”      | the directors of the Company                                                                                                                             |
| “EY”             | Ernst & Young                                                                                                                                            |
| “Fame Risen”     | Fame Risen Development Limited                                                                                                                           |
| “Group”          | the Company and its subsidiaries                                                                                                                         |
| “Hong Kong”      | the Hong Kong Special Administrative Region of the PRC                                                                                                   |
| “Rizhao Medium”  | 日照型钢有限公司 (Rizhao Medium Section Mill Co., Ltd.)                                                                                                          |
| “Rizhao Steel”   | 日照钢铁有限公司 (Rizhao Steel Co., Ltd.)                                                                                                                        |
| “Rizhao Wire”    | 日照钢铁轧钢有限公司 (Rizhao Wire Co., Limited)                                                                                                                    |
| “SGM”            | the special general meeting of the Company to be convened to consider, if thought fit, to approve the appointment of EY as auditor of the Group          |
| “Share(s)”       | share(s) of HK\$0.10 each in the capital of the Company                                                                                                  |
| “Shareholder(s)” | holder(s) of the Share(s)                                                                                                                                |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited                                                                                                                  |
| “%”              | per cent                                                                                                                                                 |



**KAI YUAN HOLDINGS LIMITED**

**開源控股有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1215)**

*Executive Directors:*

Mr. Hu Yishi (Chairman)  
Mr. Yip Kar Hang, Raymond  
Ms. Kwong Wai Man, Karina

*Non-executive Directors:*

Mr. Hu Jin Xing  
Mr. Xue Jian

*Independent non-executive Directors:*

Mr. Tam Sun Wing  
Mr. Ko Ming Tung, Edward  
Mr. Ng Ge Bun

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton, HM 12  
Bermuda

*Principal place of business  
in Hong Kong:*

28th Floor  
Chinachem Century Tower  
178 Gloucester Road  
Wanchai, Hong Kong

31 December 2009

*To the Shareholders, and for information only,  
holders of options of the Company and  
holders of convertible notes of the Company*

Dear Sir or Madam,

**PROPOSED CHANGE OF AUDITOR  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

On 15 December 2009, the Board announced that Deloitte tendered its resignation as auditor of the Group with effect from 14 December 2009 and proposed 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.

At the forthcoming SGM, an ordinary resolution will be proposed to the Shareholders to approve the appointment of EY as the auditor of the Group.

## LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with information necessary to enable them to make a decision on whether to vote for or against the ordinary resolution to be proposed at the SGM for the change of auditor and to give the Shareholders the notice of the SGM.

The notice for convening the SGM is set out on pages 5 to 6 of this circular.

### PROPOSED CHANGE OF AUDITOR

On 15 December 2009, the Board announced that Deloitte tendered its resignation as the 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, which is interested in 30%, 30% and 25% respectively in the equity interests of Rizhao Medium, Rizhao Steel and Rizhao Wire (all being the Associated JVs). These Associated JVs have since contributed significantly to and constituted substantial portion of the Group's profit. Currently, the results of the Associated JVs are audited by 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 the holders of securities of the Company. The Board was 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 the holders of securities of the Company.

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 proposed 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 at the SGM.

### SGM

A notice convening the SGM to be held at Plaza 1 & 2, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong at 9:30 a.m. on Monday, 25 January 2010 is set out on pages 5 to 6 of this circular. A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the form of proxy and return it to the office of the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not prevent you from attending and voting at the SGM or any adjourned meeting should you so wish.

## LETTER FROM THE BOARD

Voting at the SGM shall be conducted by way of poll in accordance with the Rules Governing the Listing of Securities on the Stock Exchange.

### RECOMMENDATION

The Directors believe that the ordinary resolution to be put before the SGM in relation to the appointment of EY as auditor of the Group is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend all Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

Yours faithfully,  
For and on behalf of the Board  
**Kai Yuan Holdings Limited**  
**Yip Kar Hang, Raymond**  
*Executive Director and*  
*Chief Executive Officer*



**KAI YUAN HOLDINGS LIMITED**

**開源控股有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1215)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Kai Yuan Holdings Limited (“**Company**”) will be held at Plaza 1 & 2, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong at 9:30 a.m. on Monday, 25 January 2010 for the purpose of considering and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT** Ernst & Young be and is hereby appointed as the auditor of the Company and its subsidiaries (the “**Group**”) to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu and to hold office until the conclusion of the next annual general meeting of the Company and the board of directors of the Company be and is hereby authorised to fix the remuneration of the auditor of the Group.”

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

Hong Kong, 31 December 2009

*Principal place of business in Hong Kong:*

28th Floor  
Chinachem Century Tower  
178 Gloucester Road  
Wanchai, Hong Kong

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

## NOTICE OF SGM

*Notes:*

1. A shareholder of the Company (“**Shareholder**”) entitled to attend and vote at the special general meeting (“**SGM**”) may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a Shareholder.
2. Where there are joint registered holders of any share of HK\$0.10 each in the capital of the Company (“**Share**”), any one such persons may vote at the SGM, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM.
4. As at the date of this notice, the board of directors of the Company consists of 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).