

**Kai Yuan (SEHK Code: 1215) Announces  
Issue of Convertible Notes  
Raising Approximately HK\$265.5 Million  
for Possible New Investments**

(Hong Kong, 28 May 2008) ----- **Kai Yuan Holdings Limited ("Kai Yuan", "The Company") (SEHK Code: 1215)** announced its entering into subscription agreements for the issuance of convertible notes to the Company's Chairman Mr. Hu Yishi raising approximately HK\$265.5 million for possible new investments and general working capital purpose. Mr. Hu Yishi at present is beneficially interested in 491,650,000 shares, representing approximately 7.61% of the issued share capital of the Company. Immediately after the issue of the conversion shares, his shareholding will increase to 25.03%.

Assuming the conversion rights attaching to all convertible notes are exercised in full at the initial conversion price of HK\$0.177 per share, a maximum of 1,500,000,000 shares will be issued, representing approximately 23.23% of the issued share capital of the Company as at the date of the announcement and approximately 18.85% of the issued share capital of the Company as enlarged by the allotment and issue of the conversion shares.

The initial conversion price for the convertible notes is HK\$0.177 (subject to adjustments), which represents a premium of approximately 1.72% over the average closing price of approximately HK\$0.174 per share as quoted on the Stock Exchange on 26 May 2008 being the last trading day immediately prior to the date of the Subscription Agreement.

The convertible notes will bear an interest of 3.5% per annum. Interest will be payable yearly in arrears commencing 12 months after the date of the issue of the convertible notes.

**About Kai Yuan Holdings Limited (SEHK Code: 1215)**

Kai Yuan Holdings Limited is principally engaged in heat supply business and property investment. Kai Yuan is extending its business to the provision of municipal public utility in mainland China by acquiring Tianjin Heating Development Co., Ltd. in January 2008, which focuses on heat supply to residential, commercial and industrial users.

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