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中國恒有源發展集團有限公司
CHYY DEVELOPMENT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8128)

**FULFILMENT OF ALL RESUMPTION GUIDANCE
AND
RESUMPTION OF TRADING**

Financial adviser to the Company



Diligent Capital Limited

This announcement is made by the board (the “**Board**”) of directors (the “**Director(s)**”) of CHYY Development Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Rule 17.10(2)(a) of the Rules Governing the Listing of Securities (the “**GEM Listing Rules**”) on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

References are made to (i) the announcements of the Company dated 22 March 2023 and 23 March 2023 relating to, among other things, the delay in the publication of the Group’s audited annual results for the year ended 31 December 2022 (“**FY2022 Annual Results**”); (ii) the announcement of the Company dated 3 April 2023 relating to the suspension of trading; (iii) the announcement of the Company dated 14 April 2023 relating to the estimated time for publication of the FY2022 Annual Results; (iv) the announcement of the Company dated 24 May 2023 relating to the Stock Exchange’s guidance to the Company for the resumption of trading in the Shares (“**Resumption Guidance**”); (v) the announcements of the Company dated 28 June 2023, 4 July 2023 and 14 July 2023 relating to, among other things, the change of auditor of the Company; (vi) the announcement of the Company dated 3 October 2023 relating to the quarterly update on status of resumption (collectively, the “**Previous Announcements**”).

Capitalised terms used in this announcement have the same meanings as defined in the Previous Announcements unless defined otherwise herein.

BACKGROUND

Trading in the shares of the Company has been suspended on the Stock Exchange with effect from 9:00 a.m. on Monday, 3 April 2023 as required under Rule 17.49A of the GEM Listing Rules due to the delay in the publication of the FY2022 Annual Results.

The delay in the publication of FY2022 Annual Results was due to: (i) the Company could not agree with BDO on the audit fees arrangement; and (ii) the Company was unable to provide BDO with all necessary information in a timely manner and reach a consensus on releasing the FY2022 Annual Results.

RESUMPTION GUIDANCE

On 11 May 2022, the Company received a letter from the Stock Exchange which sets out the following Resumption Guidance:

- (i) publish all outstanding financial results required under the GEM Listing Rules and address any audit modifications;
- (ii) demonstrate the Company's compliance with GEM Rule 17.26; and
- (iii) inform the market of all material information for the Company's shareholders and investors to appraise the Company's position.

FULFILMENT OF RESUMPTION GUIDANCE

The Board is pleased to announce that the Company has fulfilled the Resumption Guidance, details of which are set out below:

Resumption Guidance 1 – publish all outstanding financial results required under the GEM Listing Rules and address any audit modifications

The following table outlines (i) the outstanding information and/or matters raised by BDO, (ii) the documents and/or information provided by the Company and/or the Company's predecessor auditor to address these matters, and (iii) the follow-up actions conducted by the Auditor on the relevant issues.

	Outstanding information and/or matters raised by BDO	Documents and/or information provided by the Company and/or predecessor auditor of the Company	Follow-up actions conducted by the Auditor on the relevant issues
1.	The basis of key assumptions and the related supporting documentation on the cash flow forecasts when the Company prepares its going concern assessment for a period covering not less than 12 months from the financial reporting date.	An updated cash flow forecast (the “ Forecast ”) detailing key assumptions and parameters.	<ul style="list-style-type: none"> a) Inquired with the Group’s chief financial controller, on a continuous basis, as to whether he was aware of any events or conditions beyond the period of the Group’s management’s (the “Management”) assessment that may cast significant doubt on the Group’s ability to continue as a going concern; b) Assessed the reliability of the parameters used to prepare the Forecast by obtaining the Group’s latest available unaudited financial statements up to 31 July 2023; c) Assessed the reasonableness and appropriateness of the key assumptions and parameters adopted by the Management for the Forecast through understanding the Group’s business plan and latest operations by (i) reviewing the Board minutes; (ii) referencing the latest geothermal energy development and government policy in China; d) Assessed reasonableness and appropriateness of assumptions by comparing prior period forecasts to historic results and current period forecasts to actual results; e) Obtained the written representation letters from the Management for their future action plans and feasibility of the plans; and f) Assessed the sensitivity analysis conducted by the Management on the Forecast.

	Outstanding information and/or matters raised by BDO	Documents and/or information provided by the Company and/or predecessor auditor of the Company	Follow-up actions conducted by the Auditor on the relevant issues
2.	Additional information in relation to the corresponding figures or opening balances as at 1 January 2022, including		
(i)	The analysis and breakdown for significant tax payables which have not been paid for several years, together with an assessment and conclusion on whether the Group has complied with the relevant tax rules and regulations in the applicable jurisdiction.	<ul style="list-style-type: none"> a) The calculation of the tax computation regarding the Group's tax payables; and b) The nature of the relevant tax adjustment. 	<ul style="list-style-type: none"> a) Held a meeting with the Management and Ernst & Young (being the Company's previous auditor) to enquire about tax adjustments; b) Obtained the nature of the adjustment and calculation of the Group's tax payables; c) Performed a recalculation and revisited the underlying calculation for the purpose of understanding the rationale behind the tax payable balances and ensuring the tax adjustment was reasonable and appropriate.
(ii)	Explanations and legal opinion for transferring the results of a subsidiary for prior years to non-controlling interest in the Group's consolidated statement of changes in equity.	All relevant agreements regarding non-controlling interests as recognised in the Group's consolidated statement of changes in equity.	<ul style="list-style-type: none"> a) Discussed with the Management about the arrangement; and b) Reviewed all agreements provided by the Management and assessed the accounting treatment of the Group's non-controlling interest in accordance with the applicable accounting standards.
(iii)	Fair value assessment for the Group's unlisted equity investment as at 31 December 2021 (for which the Group entered into an equity transfer agreement on 13 November 2020 and with respect to which the transfer of ownership was not legally completed as at 31 December 2021).	The sale and purchase agreement relating to the Group's unlisted equity investments as at 31 December 2021.	Reviewed the sale and purchase agreement provided by the Management and assessed the accounting treatment of the Group's unlisted equity investments in accordance with the applicable accounting standards.

	Outstanding information and/or matters raised by BDO	Documents and/or information provided by the Company and/or predecessor auditor of the Company	Follow-up actions conducted by the Auditor on the relevant issues
(iv)	Fair value assessment for the Company's investment properties (the " Investment Properties ") located in Mianyang City, Sichuan Province, the PRC as at 31 December 2021, together with key assumptions and the related supporting information.	Valuation report relating to the valuation (the " Valuation ") of the fair value of the Investment Properties as of 31 December 2021 conducted by an independent professional valuer (the " Valuer ") and the underlying calculation performed by the Management as at 31 December 2021.	<ul style="list-style-type: none"> a) Reviewed the qualification and competency, and assessed the objectivity of the Valuer and the Management who determined the fair value of the Investment Properties for FY2022 Annual Results through interviews; b) Obtained understanding of the Management's assessment of the fair value of the Investment Properties and the reasons of not engaging an independent valuer for valuing the Investment Properties for the Company's audit for the year ended 31 December 2021; c) Assessed the Group's internal control on fair value determination; d) Evaluated the Management's and the Valuer's estimation and judgment, and verified the adjustment factors included in the calculation of the Valuation; and e) Performed recalculation and conducted a sensitivity analysis on the Valuation.
(v)	A reconciliation that agreed to the corresponding figures, including but not limited to the expected credit losses on the Group's financial assets, aging analysis of certain receivables and payables balances and financial information of its joint ventures.	<ul style="list-style-type: none"> a) Calculation of the expected credit loss of the Group's financial assets; b) Aging analysis of the Group's trade receivables, contract assets, other receivables, and trade and other payables; and c) Reconciliation of joint ventures to share of net assets. 	Reconciled the schedules provided by the Management with the Group's underlying financial statements.

	Outstanding information and/or matters raised by BDO	Documents and/or information provided by the Company and/or predecessor auditor of the Company	Follow-up actions conducted by the Auditor on the relevant issues
3.	The Company's consolidation elimination adjustments on inter-company balances among the Group for its consolidated financial statements for the years ended 31 December 2021 and 2022.	The Group's Inter-company transactions and balances breakdown.	Traced the breakdown to the Group's underlying financial statements and ledgers.
4.	Certain outstanding information, supporting documents and explanations from management for purposes of preparing audit confirmations to the Company's debtors, creditors and related parties, including but not limited to, (i) those audit confirmations not yet sent out as management is preparing the mailing information on these debtors, creditors and/or related parties; (ii) explanations for certain direct audit confirmations which were not successfully delivered by the couriers; and (iii) the discrepancies between the mailing addresses on certain audit confirmations received by BDO and the related addresses as available on internet.	Information for preparation of debtors, creditors, and related parties confirmation.	<ul style="list-style-type: none"> a) Inquired with the Group's sales team about the information on the Company's debtors, creditors and related parties and update contact information by reaching out to the relevant parties; b) Conducted face-to-face meetings with confirmation parties to verify the account balances in person; c) Verified the identity of confirmation parties; and d) Performed company search or physical inspection for unreturned confirmation.
5.	The complete list of the Group's litigation matters, particularly those in which Group entities were named as defendant(s).	List of litigation matters up to 31 July 2023.	<ul style="list-style-type: none"> a) Performed independent litigation matters up to 31 July 2023; and b) Conducted an independent litigation search and contacted legal counselors through written correspondence and phone inquiries to obtain an update on the status of the litigation.

	Outstanding information and/or matters raised by BDO	Documents and/or information provided by the Company and/or predecessor auditor of the Company	Follow-up actions conducted by the Auditor on the relevant issues
6.	Certain outstanding information, including but not limited to (a) expected credit losses assessment on financial assets; (b) management accounts of certain associates; (c) information and/or supporting documents of restricted bank balances, contract revenue and share of results of a joint venture; (d) breakdowns and/or supporting schedules of certain Hong Kong incorporation subsidiaries; (e) bank confirmation, bank statements, credit report and incorporation information of a subsidiary; (f) explanation on assumptions adopted in valuation reports; (g) analysis of deferred tax calculation; (h) list of commitments, contingencies and off balance sheet events (if any); and (i) subsequent events including the update on on-going litigations.	All outstanding information and documents.	Examined and evaluated all the outstanding information provided by the Management.

Based on the above, the Auditor confirmed with the Company that all information necessary for the audit of the FY2022 Annual Results had been provided, and they had obtained sufficient and appropriate audit evidence to complete the audit of the FY2022 Annual Results.

The Company had published the FY2022 Annual Results, the unaudited consolidated first quarter results of the Group for the three months ended 31 March 2023, and the unaudited interim results of the Group for the six months ended 30 June 2023 (the “**FY2023 Interim Results**”). The Company has published all outstanding financial results in compliance with the requirements of the GEM Listing Rules. The current auditor of the Company, CL Partners CPA Limited (the “**Auditor**”), issued a clean opinion on the Company’s audited annual financial statements for the year ended 31 December 2022, which means that there were no audit modifications that the Company needed to address.

Based on the foregoing, the Board is of the view that the Company has adequately fulfilled Resumption Guidance 1.

Resumption Guidance 2 – demonstrate the Company’s compliance with GEM Rule 17.26

The Group is principally engaged in (i) the provision, installation and maintenance of shallow geothermal energy utilization systems; (ii) trading of air conditioning or shallow geothermal heat pump products; (iii) investment in properties; and (iv) trading of securities and other types of investments.

Sufficient operations

As disclosed in the FY2022 Annual Results and FY2023 Interim Results, the Group recorded:

- (i) revenue of approximately HK\$119,428,000 and HK\$34,377,000 for the financial year ended 31 December 2022 (“**FY2022**”) and the six months ended 30 June 2023 (“**1H2023**”), respectively;
- (ii) gross profit of approximately HK\$15,121,000 and HK\$8,861,000 for the FY2022 and 1H2023, respectively;
- (iii) net loss of approximately HK\$135,463,000 and HK\$16,022,000 for the FY2022 and 1H2023, respectively.

The Group experienced a net loss in FY2022 due to a decrease in revenue from operations for FY2022. Specifically, revenue decreased by approximately HK\$57,407,000 from approximately HK\$176,835,000 for the year ended 31 December 2021 to approximately HK\$119,428,000 for the year ended 31 December 2022. Further, the Group also experienced a net loss in 1H2023 and a decrease in revenue by approximately HK\$15,972,000 from approximately HK\$50,349,000 for the six months ended 30 June 2022 to approximately HK\$34,377,000 for the six months ended 30 June 2023. The decline in revenue for each of FY2022 and 1H2023 was mainly caused by a decrease in revenue from alternative energy engineering projects due to fewer contracts signed. It was mainly the impact resulted from the outbreak of COVID-19 pandemic such as the impact of delay in the schedules of some ongoing construction projects.

The Board stress that the geothermal industry suffered the consequences of the COVID-19 pandemic as the Group faced delays in its ongoing projects and greater hesitation from potential customers for its services and products. However, the Board believed that the decline was a temporary situation. Despite the COVID-19 short-term consequence, the Directors considered that the geothermal heating and cooling industry remains a positive trend.

China’s urbanization trend is expected to lead to a significant increase in energy consumption and emissions. To mitigate this, the Chinese government has set targets in its 14th Five Year Plan for Building Energy Efficiency and Green Building (the “**Plan**”). The Plan aims to increase the use of geothermal energy in new buildings, raise the proportion of energy derived from renewable electricity, and reduce the energy intensity and emissions intensity in residential and commercial buildings. Given these targets, the Directors believe that the Group will benefit from the rapid growth in renewable energy industries and the strong support for these industries from the PRC government. As the total installed capacity of geothermal energy in the PRC continues to grow, the market demand for geothermal energy will also increase. This is expected to benefit the Group’s business and lead to a rebound back of its financial performance to pre-COVID-19 levels.

As at the date of this announcement, the business operations of the Group are operating as usual in all material respects.

Sufficient assets

As disclosed in the FY2022 Annual Results and 1H2023 Interim Results, the Group recorded:

- (i) total assets of approximately HK\$1,247,849,000 and HK\$1,202,743,000 as at 31 December 2022 and 30 June 2023, respectively;
- (ii) net asset value of approximately HK\$284,692,000 and HK\$264,227,000 as at 31 December 2022 and 30 June 2023, respectively;
- (iii) cash and cash equivalents of approximately HK\$47,043,000 and HK\$62,529,000 as at 31 December 2022 and 30 June 2023, respectively; and
- (iv) property, plant and equivalent of approximately HK\$168,673,000 and HK\$159,835,000 as at 31 December 2022 and 30 June 2023, respectively.

The property, plant and equipment are mainly leasehold land and buildings and plant and machinery used for the Group's business operations. Although the Group had net current liabilities of approximately HK\$66,501,000 as of 30 June 2023, the Board have taken the following measures into consideration: (i) the Group received RMB19,618,000 from the disposal of Hong Yuan Ground Source Heating Pump Technology Co., Ltd* (宏源地能熱泵科技有限公司) (for more information, please refer to the Company's announcement dated 22 September 2023); (ii) the Group has implemented cost control, strengthened collection of project funds, and looked for new sources of financing or strategic capital investments to support its working capital, and (iii) there are no immediate overdue or other bank borrowings. As a result, the Group has sufficient working capital to support its daily operations.

In light of the above, the Company is of the view that the Group has a viable and sustainable business with a sufficient level of operations and assets of sufficient value to support its operations to meet the requirements of Rule 17.26 of the GEM Listing Rules and warrant the continued listing of the Shares on the Stock Exchange.

Based on the foregoing, the Board is of the view that the Company has adequately fulfilled Resumption Guidance 2.

Resumption Guidance 3 – inform the market of all material information for the Company's shareholders and investors to appraise the Company's position

Since the suspension of the trading of the Shares on 3 April 2023, the Company has, in accordance with the requirements of the GEM Listing Rules, informed the market the latest situation of the Company by way of publication of announcements and financial results including (i) quarterly update on resumption progress; (ii) inside information; (iii) financial results; and (iv) other matters relating to the Company.

Based on the foregoing, the Board is of the view that the Company has adequately fulfilled Resumption Guidance 3.

RESUMPTION OF TRADING

By reason of the above, the Company confirms that it has remedied the issues causing the trading suspension and fully complied with the GEM Listing Rules to the Stock Exchange's satisfaction. The Company also confirms that it has fulfilled all the conditions set out in the Resumption Guidance.

Trading in the Shares on the Stock Exchange has been suspended since 3 April 2023. As all the conditions under the Resumption Guidance have been fulfilled, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 16 October 2023.

By Order of the Board
CHYY Development Group Limited
Xu Shengheng
Chairman

Hong Kong, 13 October 2023

As at the date of this announcement, the Board comprises Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine and Mr. Dai Qi as executive Directors, Mr. Liao Yuan, Mr. Zhang Yiying and Ms. Liu Ening as non-executive Directors, Mr. Wu Desheng, Mr. Wu Qiang, Mr. Jia Wenzeng and Mr. Guan Chenghua as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk on the "Latest Company Announcement" page for at least 7 days from the date of publication and on the website of the Company at www.chyy.com.hk.