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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)

**SUPPLEMENTAL ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
IN RELATION TO THE DISPOSAL OF 20% EQUITY INTEREST
IN AN ASSOCIATE**

Reference is made to the announcement of CHYY Development Group Limited (the “**Company**”) dated 17 June 2025 regarding the discloseable transaction in relation to the disposal of 20% equity interest in an associate (the “**Announcement**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as defined in the Announcement. This announcement is to provide additional information in relation to the Announcement.

BASIS FOR DETERMINATION OF THE CONSIDERATION

The Consideration of RMB5,215,740 for the Disposal of 20% equity interest in the Target Company was determined after arm’s length negotiations between the Vendor and the Purchaser, on normal commercial terms, with reference to the following quantitative and qualitative factors:

(i) Historical Financial Performance

The Target Company recorded a Compound Annual Growth Rate (CAGR) of approximately 25.84% in revenue during the six-year period from 2019 to 2024. While revenue increased steadily, the Target Company incurred an accumulated pre-tax loss of approximately RMB5.90 million over the same period, including a loss of approximately RMB9.44 million in 2024, mainly attributable to impairment provisions. The gross profit margin averaged 17% over the six-year period, with a margin of 13.49% recorded in 2024.

(ii) Prospective Financial Projections

The financial projections were prepared by the Company’s internal valuation team based on the Target Company’s historical performance, management expectations, and industry benchmarks. Key forecast assumptions include:

- Revenue Growth: Estimated at 10% per annum, with revenue assumed to remain at the 2028 level during the terminal period. The forecast is supported by a contract backlog of approximately RMB100 million and an estimated RMB126 million in additional contracts expected to be signed in 2026. This assumption represents a conservative

adjustment from the historical revenue CAGR of approximately 25.84% for the period from 2019 to 2024, and is also lower than the average growth rate of approximately 11.54% based on three comparable listed companies over the period from 2021 to 2024.

- Gross Profit Margin: Maintained at 13.49%, consistent with the Target Company's 2024 performance and broadly in line with the average margin of 13.32% for the selected comparable listed companies over the same period.
- EBITDA Margin: Expected to improve gradually over the projection period, driven by cost control measures and improvements in operational efficiency.
- Working Capital and Capital Expenditure: Working capital is projected to grow by approximately 3% annually from the 2024 base level. Capital expenditure remains unchanged in 2025 and 2026, and is expected to increase significantly from 2027 onwards, reaching a stable level from 2028 through the terminal period.

In order to benchmark the foregoing assumptions, the Company's internal valuation team adopted a systematic peer-selection framework. Each peer was required to satisfy all of the following criteria:

- Industry alignment: Operating in sectors similar to engineering and mechanical & electrical contractors specialising in HVAC, ground-source heat-pump or underfloor heating systems;
- Financial comparability: historical revenue growth and gross profit margins broadly in line with the Target Company's performance over 2021–2024;
- Business model similarity: project-based contracting, including turnkey design, installation and equipment supply;
- Geographic alignment: operations concentrated in the Yangtze River Delta (Shanghai, Zhejiang, Jiangsu), consistent with the Target Company's market focus;
- Listing and disclosure standards: publicly listed in Mainland China, subject to PRC accounting standards, with audited financial statements and routine regulatory filings; and
- Data availability: at least four consecutive years (2021–2024) of revenue and gross profit data to enable reliable calculation of growth rates and margin benchmarks.

On this basis, three listed companies – China Haisum (stock code: 002116.SZ), Shenghui Integration (stock code: 603163.SH), and Yaxing Integration (stock code: 603929.SH) – were identified as the exhaustive peer set.

The Board has reviewed and endorsed the peer selection methodology and the assumptions applied in the financial projections. It considers the screening criteria to be fair and reasonable, having regard to the close alignment of industry and operational scope between the selected peers and the Target Company, the comparability in terms of capital structure and geographic exposure, the integrity and sufficiency of the disclosed financial information, and the robustness of the analytical procedures adopted by the valuation team. The Board is satisfied that the benchmarking results support a prudent and defensible base case for valuation purposes.

Set out below are the annual revenue and gross profit margins of the selected comparable companies for the years ended 31 December 2021 to 2024 (unit: million RMB):

Stock Code	Company Name	2021 Revenue	2021 GP %	2022 Revenue	2022 GP %	2023 Revenue	2023 GP %	2024 Revenue	2024 GP %	CAGR (2021-2024)	Avg GP % (2021-2024)
002116.SZ	China Haisum Shenghui	52.65	12.67%	57.20	13.29%	66.52	14.56%	68.21	16.31%	6.68%	14.21%
603163.SH	Integration	17.02	15.11%	16.28	15.44%	20.09	13.44%	20.08	12.60%	5.14%	14.15%
603929.SH	Yaxing Integration	22.12	7.89%	30.39	10.79%	32.01	14.17%	53.81	13.56%	24.88%	11.60%
Average	-	30.60	11.89%	34.62	13.17%	39.54	14.06%	47.37	14.16%	11.54%	13.32%

Source: Annual reports of the respective companies for the years ended 31 December 2021 to 2024.

(iii) Valuation Methodology and DCF Application

The Company adopted the discounted cash flow (DCF) approach under the income method to assess the equity value of the Target Company as at the valuation date. The projection period covers the financial years from 2025 to 2028. Based on the financial projections described above, free cash flow to equity (FCFE) was derived for each forecast year by adjusting projected EBITDA for taxes, capital expenditures and changes in working capital. These components were projected based on management's assumptions, including revenue growth of 10% per annum, a stable gross margin in line with 2024 performance, working capital increasing by approximately 3% annually from the 2024 base level, and capital expenditure remaining flat in 2025 and 2026, increasing significantly in 2027, and then stabilizing from 2028 through the terminal period.

A discount rate of 8.00% was applied, reflecting the Target Company's weighted average cost of capital (WACC). The WACC was determined with reference to the following inputs:

- a) a risk-free rate of 1.677%, based on the yield of 10-year PRC government bonds;
- b) a beta coefficient of 0.5795, derived from comparable listed companies and unadjusted for financial leverage;
- c) an equity risk premium of 5.3%, determined by the Company's internal valuation team based on analysis of historical returns of the CSI 300 Index, which is considered representative of the domestic equity market and commonly used in estimating long-term excess returns over the risk-free rate;

- d) a company-specific risk premium of 3.26%, as determined by the Company's internal valuation team with reference to the Target Company's non-systematic risk characteristics relative to comparable listed companies, including its relatively small operating scale, lower market visibility, customer concentration and competitive positioning;
- e) an after-tax cost of debt of 2.55%, estimated based on a pre-tax short-term loan interest rate of approximately 3.00%, reflecting current market lending conditions and prevailing tax rates; and
- f) a capital structure comprising 99.65% equity and 0.35% debt, reflecting the Target Company's debt-free position as at the valuation date.

The terminal value was calculated based on the assumption that FCFE would remain constant at the 2028 level into perpetuity, applying a perpetuity no growth model. All forecast-period cash flows and the terminal value were discounted to the valuation date (31 December 2024) using the WACC. Based on the above, the DCF model yielded an estimated equity value of approximately RMB26.05 million for 100% of the Target Company.

The valuation process was reviewed and confirmed by the Company's management team to be reasonable and in line with standard valuation methodology under the income approach.

(iv) Sensitivity Analysis

Sensitivity analyses were performed on key valuation parameters to assess the robustness of the DCF outcome. Specifically:

- Discount Rate (WACC): tested within a range of 7.0% to 9.0%, resulting in an estimated equity value variation of approximately \pm RMB1.60 million;
- Revenue Growth Rate: adjusted from 8% to 12%, leading to an estimated valuation fluctuation of \pm RMB1.20 million.

The results of the analysis indicate that the estimated equity value of the Target Company remains within a reasonable valuation band under both base case and moderate deviation scenarios.

(v) Board Assessment of Projections

The Board has reviewed the financial projections and underlying assumptions prepared by the internal valuation team. Taking into account the Target Company's historical performance trends, signed contract backlog, anticipated project pipeline, and publicly available industry benchmarks of comparable listed companies, the Board considers the inputs and valuation methodology to be reasonable, justifiable, and prepared on a consistent and supportable basis. The projections and valuation were approved by the Board following thorough review and discussion.

(vi) Negotiated Consideration

Taking into account the internal valuation outcome, the Target Company's historical and projected operating performance, and the prevailing macroeconomic and market conditions, the Vendor and the Purchaser agreed on a consideration of RMB5,215,740 for the disposal of 20% equity interest in the Target Company. This consideration implies a total equity valuation of approximately RMB26.08 million, which is broadly consistent with the DCF-based valuation of RMB26.05 million. Based on the valuation outcome, the supporting assumptions, and the Board's independent assessment, the Board considers the negotiated consideration to be fair and reasonable.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND PROCEEDS FROM DISPOSAL

The Board has considered that the Target Company's future prospects carry a degree of uncertainty, primarily due to its business concentration in underfloor heating systems for new residential construction projects in certain regions of Mainland China. In recent years, the PRC real estate sector has undergone significant changes, and the Target Company's business performance has come under pressure. In particular, while revenue increased only slightly from approximately RMB77.75 million in 2023 to RMB79.23 million in 2024—representing year-on-year growth of just 1.90%—its profitability declined sharply. The Target Company recorded a profit before tax of approximately RMB1.59 million in 2023 but reported a loss before tax of approximately RMB9.44 million in 2024, mainly due to provisions for asset and credit impairment. The gross profit margin also decreased from 19.86% in 2023 to 13.49% in 2024. Having considered the above, the Board believes that the Target Company's earnings outlook has become less predictable and more susceptible to external market conditions.

In line with its prudent financial strategy, the Board intends to apply the proceeds toward the repayment of accounts payable in the PRC, thereby strengthening the Group's overall financial position. Although the Group's operations have remained stable, the Board believes that allocating the proceeds to reduce outstanding debt may help mitigate potential costs, such as litigation or penalty interest. Furthermore, this would enhance the Group's financial flexibility and negotiating position in dealings with creditors and suppliers, particularly amid prevailing macroeconomic headwinds. The Board views this as a practical and cost-effective measure to support capital management under current conditions.

The decision to retain a 13.2234% equity interest in the Target Company was made after careful consideration of both commercial and practical factors. During commercial discussions, the Purchaser indicated that acquisition of more than a 20% equity interest would require a one-year payment period. The Board considered that such an arrangement would not align with the Company's objective of timely capital deployment and, when coupled with the Target Company's uncertain outlook, would increase execution risk and reduce visibility over investment recovery. By disposing of only 20%, the Company is able to secure near-term funding while retaining exposure to potential future upside. The Board considers this arrangement to strike an appropriate balance between risk mitigation and the opportunity to benefit from any long-term recovery.

INFORMATION ABOUT THE TARGET COMPANY AND THE SALE SHARES

The book value of the Sale Shares as at 31 December 2024 was approximately HK\$236,580. This amount was determined with reference to the audited carrying amount of the Group's 33.2234% equity interest in the Target Company, which was approximately HK\$393,000 as at 31 December 2024, as disclosed in Note 16 titled "INVESTMENT IN A JOINT VENTURE" on page 107 of the Company's 2024 Annual Report. The book value of the Sale Shares, representing a 20% equity interest in the Target Company, was calculated on a pro-rata basis, by reference to the proportion of 20% to 33.2234%.

All other information set out in the Announcement has remained unchanged, this announcement is supplemental to and should be read in conjunction with the Announcement.

By order of the Board
CHYY Development Group Limited
Xu Shengheng
Joint Chairman

Hong Kong, 17 July 2025

As at the date of this announcement, the Board comprises Mr. Xu Shengheng and Mr. Dai Qi as executive Directors, Mr. Liao Yuan, Ms. Liu Ening and Mr. Zhang Yiying as non-executive Directors, Mr. Zhang Honghai, Mr. Guan Chenghua and Mr. Guo Guanglei as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 GEM website with the domain name of 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.