

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**To the Directors of Gilston Group Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Gilston Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 30 June 2024, the unaudited pro forma statement of profit or loss and other comprehensive income for the six months ended 30 June 2024 and the unaudited pro forma statement of cash flows for the six months ended 30 June 2024 and related notes as set out on pages IV-4 to IV-9 of the circular issued by the Company dated 25 November 2024 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-4 to IV-9 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed very substantial acquisition in relation to subscription of the registered capital of Shenzhen Jiajinlong Industrial Development Co., Ltd. in the amount of RMB9,000,000 at the consideration of RMB9,000,000 (the "Share Subscription") on the Group's financial position as at 30 June 2024 and the Group's financial performance and cash flows for the six months ended 30 June 2024 as if the transaction had taken place at 30 June 2024 and 1 January 2024 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements as of and for the six months ended 30 June 2024, on which unaudited interim report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA")

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2024 or 1 January 2024 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



SFAI
GLOBAL

HONG KONG

香港灣仔皇后大道東213號
胡忠大廈27樓2室
Unit 2, 27/F, Wu Chung House
213 Queen's Road East,
Wanchai Hong Kong

總機 General
傳真 Fax
電郵 Email
網址 Website

(852) 3707 3164
(852) 8148 6087
info@sfai.com.hk
www.sfai.com.hk

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

SFAI (HK) CPA Limited
Certified Public Accountants

Lee Yan Fai
Practising Certificate Number: P06078
Hong Kong

25 November 2024

(A) BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

In connection with the proposed very substantial acquisition in relation to subscription of the registered capital of Shenzhen Jiajinlong Industrial Development Co., Ltd (the “Target Company”) in the amount of RMB9,000,000 at the consideration of RMB9,000,000 (the “Share Subscription”), the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Company and its subsidiaries (hereinafter referred to as the “Group”) and the Target Company (together with the Group hereinafter referred to as the “Enlarged Group”) have been prepared to illustrate the effect of the Share Subscription on the Group’s financial position as at 30 June 2024 and the Group’s financial performance and cash flows for the six months ended 30 June 2024 as if the Share Subscription had taken place at 30 June 2024 and 1 January 2024 respectively.

The unaudited pro forma financial information of the Enlarged Group has been prepared by the Directors in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is solely for the purpose to illustrate the financial performance and cash flows of the Enlarged Group as if the Share Subscription had taken place on 30 June 2024 and 1 January 2024 respectively.

The unaudited pro forma financial information of the Enlarged Group is prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. Narrative description of the pro forma adjustments of the Share Subscription that are (i) directly attributable to the Share Subscription; and (ii) factually supportable, is summarised in the accompanying notes

The unaudited pro forma financial information of the Enlarged Group has been prepared by the Directors based on certain assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, the unaudited pro forma financial information of the Enlarged Group may not give a true picture of the results, cash flows or assets and liabilities of the Enlarged Group would have been upon the completion of the Share Subscription for the six months ended 30 June 2024 or as of 30 June 2024 and in any future periods or on any future dates, as appropriate.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the management discussion and analysis of the Group as set out in Appendix I to this circular, the accountants’ report of the Target Company as set out in Appendix II to this Circular and other financial information included elsewhere in this Circular.

(B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 30 JUNE 2024

	The Group HK\$'000 (Note 1)	The Target Company RMB'000 (Note 2a)	The Target Company HK\$'000 (Note 2b)	Pro forma adjustments			The Enlarged Group HK\$'000
				HK\$'000 (Note 3)	HK\$'000 (Note 4)	HK\$'000 (Note 6)	
Non-current assets							
Property, plant and equipment	43,028	46,138	49,366	8,625			101,019
Right-of-use assets	37,238	-	-				37,238
Intangible assets	437	-	-				437
Goodwill	-	-	-	938			938
Prepayments for property, plant and equipment	9,131	-	-				9,131
Rental deposits	3,252	-	-				3,252
Deferred tax assets	4,641	-	-				4,641
	97,727	46,138	49,366				156,656
Current assets							
Inventories	42,136	-	-				42,136
Trade and other receivables	130,280	5,702	6,101		(48,102)		88,279
Amounts due from a director and related companies	-	211,726	226,536	(226,536)			-
Cash and cash equivalents	75,977	36,900	39,481			(3,234)	112,224
	248,393	254,328	272,118				242,639
Current liabilities							
Trade and other payables	78,060	83,658	89,510		(48,102)		119,468
Borrowing	10,957	-	-				10,957
Tax payable	21,474	3,398	3,636				25,110
Lease liabilities	14,593	-	-				14,593
	125,084	87,056	93,146				170,128
Net current assets	123,309	167,272	178,972				72,511
Total assets less current liabilities	221,036	213,410	228,338				229,167
Non-current liabilities							
Lease liabilities	52,452	-	-				52,452
Deferred tax liabilities	1,124	6,982	7,470	2,929			11,523
	53,576	6,982	7,470				63,975
Net assets	167,460	206,428	220,868				165,192

(C) THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2024

	The Group HK\$'000 (Note 1)	The Target Company RMB'000 (Note 2a)	The Target Company HK\$'000 (Note 2b)	Pro forma adjustments HK\$'000 (Note 5) HK\$'000 (Note 6)		The Enlarged Group HK\$'000
Revenue	160,386	69,602	74,729	(45,271)		189,844
Cost of Sales	(71,476)	-	-			(71,476)
Gross profit	88,910	69,602	74,729			118,368
Other revenue, gain and losses, net	(4,186)	1,914	2,055			(2,131)
Distribution costs	(10,971)	-	-			(10,971)
Administrative expenses	(47,715)	(78,810)	(84,615)	45,271	(3,234)	(90,293)
Interests on lease liabilities	(1,952)	-	-			(1,952)
Interests on bank borrowing	(4)	(1)	(1)			(5)
Profit (loss) before taxation	24,082	(7,295)	(7,832)			13,016
Income tax expense	(13,549)	(6,671)	(7,162)			(20,711)
Profit (loss) for the period	10,533	(13,966)	(14,994)			(7,695)

(D) THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2024

	The Group HK\$'000 (Note 1)	The Target Company RMB'000 (Note 2a)	The Target Company HK\$'000 (Note 2b)	Pro forma adjustments HK\$'000 (Note 6)	The Enlarged Group HK\$'000
Cash flow from operating activities					
Cash generated from operations	11,022	19,712	21,164	(3,234)	28,952
Tax paid	(203)	(13,589)	(14,590)		(14,793)
Net cash generated from operating activities	10,819	6,123	6,574		14,159
Cash flow from Investing activities					
Interest received	-	59	63		63
Payment for the purchase of property, plant and equipment	(19,206)	-	-		(19,206)
Proceeds from disposal of property, plant and equipment	565	-	-		565
Receipts of time deposit with original maturity over 3 months	571	-	-		571
Other net cash flows arising from investing activities	141	-	-		141
Increase in amounts due from a director and related companies	-	(2,070)	(2,222)		(2,222)
Net cash used in investing activities	(17,929)	(2,011)	(2,159)		(20,088)
Cash flow from financing activities					
Dividends paid	-	(11,000)	(11,810)		(11,810)
Capital element of lease rental paid	(8,020)	-	-		(8,020)
Interest element of lease rental paid	(1,952)	-	-		(1,952)
Proceeds from placing of new shares, net of expenses of HK\$354,000	19,892	-	-		19,892
Proceeds from bank loan	10,953	-	-		10,953
Net cash generated from/(used in) financing activities	20,873	(11,000)	(11,810)		9,063
Net increase/(decrease) in cash and cash equivalents	13,763	(6,888)	(7,395)		3,134
Cash and cash equivalents at 1 January	63,332	43,788	47,014		110,346
Effect of foreign exchange rate changes	(1,118)	-	(138)		(1,256)
Cash and cash equivalents at 30 June	75,977	36,900	39,481		112,224

Notes:

1. The unaudited consolidated statement of financial position as at 30 June 2024, the unaudited consolidated statement of profit or loss and other comprehensive income and unaudited consolidated statement of cash flows of the Group for the six months ended 30 June 2024 were extracted from the published unaudited interim report of the Company for the six months ended 30 June 2024.
- 2a. The amounts have been extracted from the audited statement of financial position of the Target Company as at 30 June 2024, the audited statement of profit or loss and other comprehensive income and audited statement of cash flows of the Target Company for the six months ended 30 June 2024 in Appendix II to this Circular.
- 2b. For the purpose of the unaudited pro forma consolidated statement of financial position, the balances denominated in RMB have been translated into HK\$ at RMB1 to HK\$1.06995, the exchange rate prevailing as at 30 June 2024. For the purpose of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the six months ended 30 June 2024, the amounts denominated in RMB have been translated into HK\$ at RMB1 to HK\$1.07366, the average exchange rate prevailing for the six months ended 30 June 2024.
3. Pursuant to the Share Subscription Agreement, the Group has conditionally agreed to subscribe for the register capital of the Target Company in the amount of RMB9,000,000, representing 90% of equity interest in the Target Company upon the Completion, at the Consideration of RMB9,000,000. As at the date of this Circular, the equity interest of the Target Company is owned as to 50% by Mr. Zhang and 50% by Mr. Chen respectively. Upon Completion, the equity interest of the Target Company will be owned as to 90% by the Group, 5% by Mr. Zhang and 5% by Mr. Chen, respectively.

This adjustment represents the accounting for the Acquisition using the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations* issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of the Unaudited Pro Forma Financial Information, the Group has carried out an illustrative purchase price allocation and the fair values of the identifiable assets and liabilities of the Target Company as at 30 June 2024 were estimated by the Director with reference to the valuation performed by an independent professional qualified valuer, Graval Consulting Limited ("Graval").

The carrying values and fair values of the identifiable assets and liabilities of the Target Company as at 30 June 2024 are as follows:

	Carrying value HK\$'000	Waiver of amounts due from a director and related companies and transfer the director's quarter to the director HK\$'000	Change in fair value HK\$'000	Fair value recognised on acquisition HK\$'000 (note (i))	Share Subscription HK\$'000	Fair value recognised on acquisition after capital injection HK\$'000
Property, plant and equipment (notes (ii) and (iii))	49,366	(3,093)	11,718	57,991		57,991
Trade and other receivables	6,101			6,101		6,101
Amounts due from a director and related companies (note (ii))	226,536	(226,536)		-		-
Cash and cash equivalents	39,481			39,481	9,630	49,111
Trade and other payables	(89,510)			(89,510)		(89,510)
Tax payable	(3,636)			(3,636)		(3,636)
Deferred tax liabilities (note (iv))	(7,470)		(2,929)	(10,399)		(10,399)
Total identifiable net assets	<u>220,868</u>			<u>28</u>		9,658
Non-controlling interests (10% equity interest in the Target Company)						(966)
Goodwill						<u>938</u>
Share Subscription						<u>9,630</u>

- (i) The Director has estimated the fair value of the identifiable assets and liabilities of the Target Company as at 30 June 2024, by reference to a valuation report prepared by Graval (the "Valuation Report"), and have applied it as the fair value of the identifiable assets and liabilities of the Target Company in the Share Subscription in preparing the Unaudited Pro Forma Financial Information.
- (ii) Pursuant to the agreement dated 31 August 2024 between the Target Company and the sole director of the Target Company, upon the Completion of the Share Subscription, the Target Company agreed to waive the amounts due from the director and related companies of approximately HK\$226,536,000 (equivalent to approximately RMB211,726,000) as at 30 June 2024 and also transfer the director's quarter amounted to HK\$3,093,000 (equivalent to RMB2,891,000) to the director at nil consideration.
- (iii) Subsequent to the transfer of the director's quarter to the director, the carrying value of the Target Company's property, plant and equipment amounted to approximately HK\$46,273,000 (equivalent to approximately RMB43,247,000). Based on the Valuation Report, the estimated fair value of the property, plant and equipment as at 30 June 2024 was approximately HK\$57,991,000 (equivalent to approximately RMB54,200,000). Accordingly, a fair value upward adjustment of property, plant and equipment amounted to approximately HK\$11,718,000 (equivalent to approximately RMB10,953,000) was made.
- (iv) The deferred tax liabilities arose from the difference between the tax bases and the fair values of the property, plant and equipment amounted to approximately HK\$2,929,000 was recognised. A tax rate of 25% was used to calculate deferred tax liability as it is the tax rate expected to apply in the period when the asset is realised.
- (v) For the purpose of the unaudited pro forma financial information, it is assumed that the fair value of the net identifiable assets of the Target Company approximates their carrying values as at 30 June 2024. The fair value of the net identifiable assets of the Target Company being acquired are subject to changes upon Completion of the Share Subscription because the fair value of net identifiable assets of

the Target Company being acquired shall be assessed and determined at the date of the actual Completion of the Share Subscription, respectively.

- (vi) For the purpose of the preparation of the unaudited pro forma statement of assets and liabilities, the Director has assessed the impairment of goodwill in accordance with Hong Kong Accounting Standard 36 “Impairment of Assets” (“HKAS 36”). The estimated goodwill arising from the Share Subscription is recognised and no impairment charge is considered necessary under the requirements of HKAS 36.
 - (vii) The Directors confirm that the Company will adopt consistent accounting policies, valuation methods and principal assumptions as used in the unaudited pro forma financial information to assess the impairment of the Enlarged Group’s goodwill in subsequent reporting periods. Since the fair values of consideration, identifiable assets and liabilities of the Target Company used in the preparation of the unaudited pro forma statement of assets and liabilities may be different from their fair values on the date when the Target Company became a subsidiary of the Group, the final amounts of goodwill and the identifiable assets and liabilities to be recognised in connection with the Share Subscription may be materially different from the estimated amounts stated herein and is subject to change upon the finalisation of the valuation on Completion.
 - (viii) The non-controlling interests of the Target Company is measured at their proportionate share in the recognised fair values of the net identifiable assets of the Target Company as at 30 June 2024. This adjustment is expected to have a continuing effect to the Enlarged Group.
4. The adjustment represents the elimination of unpaid property management fee payable by the Target Company to the Group as at 30 June 2024. This adjustment is expected to have a continuing effect to the Enlarged Group.
 5. The adjustment represents the elimination of property management fee paid by the Target Company to the Group for the six months ended 30 June 2024. This adjustment is expected to have a continuing effect to the Enlarged Group.
 6. The adjustment represents the estimated transaction costs of approximately HK\$3,234,000, including the accountancy, legal, valuation and other professional services related to the Share Subscription. The expenses are charged to profit or loss directly. The adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.
 7. Subsequent to 30 June 2024, the director of the Target Company has not recommended any dividend.
 8. Apart from the above, no other adjustment has been made to reflect any trading results or other transactions entered into by the Group or the Target Company subsequent to 30 June 2024 for the unaudited pro forma statement of financial position as at 30 June 2024 as if the Share Subscription had taken place at 30 June 2024.