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GILSTON GROUP LIMITED
進騰集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2011)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report of Gilston Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") for the year ended 31 December 2023 ("**2023 Annual Report**"). Unless otherwise defined herein, capitalised terms herein shall have the same meanings as those defined in the 2023 Annual Report.

(1) IMPAIRMENT

As disclosed in the 2023 Annual Report, the Company recorded an impairment loss of HK$25.5 million and HK$28.5 million on property, plant and equipment and right-of-use assets respectively.

Reasons and circumstances leading to recognition of impairment loss for the year ended 31 December 2023

As disclosed in p.108 of the 2023 Annual Report, the recoverable amount of the Relevant Assets of the zipper business, which represented a single cash generating unit, has been determined by management with reference to value in use calculation, using cash flow projection from the latest financial budget formally approved by management covering a five-year period (2022: five-year period) with the negative growth rate of 8% in the first year, a growth rate of 5% in 2025 and gradually decreases to 3% in the fifth year (2022: growth rate of 8% in the first year and gradually decreases to 2% in the fifth year), gross profit margins being 31% throughout the period (2022: 32% to 34%) and at a discount rate of 10% (2022: 11%). Cash flows beyond the five-year period are extrapolated using a growth rate of 2%, which does not exceed the long-term growth rate for the zipper industry in the PRC and overseas. In light of the change in the expected sales and profit margin as reviewed by the management of the Company over the time, there was a change in value of input in the 2023 Annual Report as compared to the input adopted in the annual report of the Company for the year ended 31 December 2022.

Impairment assessment

The Company engaged an independent valuer (the "**Valuer**") with relevant qualification and experience to determine the present value of the future cash flows expected to be derived from an asset or cash-generating unit ("**VIU**") of the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets related to the zippers-related business of the Group ("**CGU**") as at 31 December 2023 (the "**Valuation**").

The Group is principally engaged in the manufacture and sale of finished zippers and sliders. The CGU consists of property, plant and equipment, construction in progress, intangible assets, working capital and right-of-use assets. Set out below are the major valuation inputs and assumptions for the Valuation:

Premise of value

The Valuation has been prepared in accordance with the International Valuation Standards ("**IVS**") published by the International Valuation Standards Council, which states that valuations undertaken for inclusion in financial statements shall be provided to meet the requirement of the financial reporting standards that are applicable, including Hong Kong Financial Reporting Standard(s) (the "**HKFRS**") and Hong Kong Accounting Standard(s) (the "**HKAS**").

The Valuation was based on the going concern premise and conducted on a basis of VIU in accordance with HKAS 36 "Impairment of Assets".

Valuation approach

The Valuer observed and referred to HKAS 36, where estimating the value in use of an asset or cash generating unit involves: (i) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and (ii) applying the appropriate discount rate to those future cash flows.

Accordingly, the estimation of value in use conforms with discounted cash flow method under the income approach to the Valuation, which focuses on the economic benefits generated by the income producing capability of a business. The underlying theory of this approach is that the value of a business can be measured by the present worth of the economic benefits to be received over the life of the business.

Financial model

The free cash flow to the firm ("**FCFF**") model has been utilized in the Valuation. FCFF represents the amount of cash available to both debt and equity holders after all operating expenses, taxes, change in net working capital and capital expenditure.

The Valuer's opinion of value was obtained by applying the financial projections prepared and provided by the Group, which cover a period of about 5 years. A constant terminal growth rate was then taken to estimate the cash flows beyond the projection period. Key inputs of the financial projections are shown as below:

Parameter	Input
Revenue growth	-9% in 2024, 3% to 5% thereafter
Gross margin	31%
Profit margin	-4% to 0%
Terminal growth rate	2%

Comparable search

In searching for the comparable companies, the selection criteria have been adopted as follows:

– Publicly listed with liquid market trading and sufficient information;

– Principal place of business based in Asia Pacific; and

– Major revenue generated from zipper-related business.

As sourced from Bloomberg, on best effort basis, the Valuer shortlisted the following comparable companies:

Company Name	Bloomberg Stock Code
Fujian SBS Zipper Science & Technology Co., Ltd.	002098 CH
Wiselink Co., Ltd.	8932 TT
Zhejiang Weixing Industrial Development Co., Ltd.	002003 CH

Discount rate

A discount rate represents the total expected rate of return that an investor would demand on the purchase price of an ownership interest in an asset given the level of risk inherent in that ownership interest. In this valuation, the discount rate applied to the cash flow streams attributable to the Group is the weighted average cost of capital ("**WACC**").

Key parameters and inputs as at 31 December 2023 are shown below:

Parameter	Input	Source	Note
Risk-free rate	2.56%	Bloomberg	China generic 10-year government bond yield
Market risk premium	10.02%	Bloomberg	Average return rate of China market in excess of the risk-free rate
Relevered beta	0.57	Bloomberg	Median beta of the comparable companies
Size premium	2.91%	Kroll, LLC	
Cost of equity	11.17%		
Debt-to-equity ratio	18.15%	Bloomberg	Median ratio of the comparable companies
Corporate tax rate	25.00%	Group	
Cost of debt	4.90%	Bloomberg	Above 5-year benchmark lending rate in China
After-tax cost of debt	3.68%		
WACC	10.02%		

By an iterative computation, the pre-tax discount rate of 11.23% was determined so that value in use determined using pre-tax cash flows and a pre-tax discount rate equals value in use determined using post-tax cash flows and a post-tax discount rate.

(2) FUNDRAISING

As disclosed in the announcement of the Company dated 12 July 2022, the Company completed the placing of new shares and raised a total of HK$68.6 million. As disclosed in the 2023 Annual Report, approximately HK$38.6 million, out of the net proceeds of approximately HK$68.6 million has been utilised as general working capital and business opportunities and investments. It was expected that the remaining portion of the net proceeds amounting to approximately HK$30.0 million would be utilised by 30 June 2024. Details are set out below for reference:

Intended use of proceeds	**Allocation of proceeds**	**Utilisation as at 31 December 2023**	**Unutilised as at 31 December 2023**	**Expected timeline for full utilisation of the remaining proceeds**
	HK$ million	*HK$ million*	*HK$ million*	
For general working capital and business opportunities and investments	68.6	38.6	30.0	30 June 2024
Total	**68.6**	**38.6**	**30.0**	

There has been no change of intended use of the proceeds from the placing.

(3) NEW SHARE OPTION SCHEME

As disclosed in the announcement of the Company dated 30 May 2023, the Company adopted the new share option scheme ("**New Share Option Scheme**") on 30 May 2023. As disclosed in the announcement of the Company dated 27 September 2023, amongst others, 5,577,648 share options were granted to Ms. Cheung Ka Yuen, an executive director (the "**Director**") of the Company. As further disclosed in the announcement of the Company dated 29 November 2023, resolutions have been passed at the extraordinary general meeting on 29 November 2023 to grant 33,465,888 share options to Mr. Yip Siu Lun Dave (an executive Director and Chairman of the Board) and 16,732,944 share options to Mr. Lin Sunming (chief investment officer of the Company), respectively. As such, an aggregate of 55,776,480 share options have been granted under the New Share Option Scheme, representing 10% of the total number of shares of the Company ("**Shares**") in issue as at the adoption date of the New Share Option Scheme. The maximum total number of Shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme has been reached as of 29 November 2023. No share options granted were subsequently cancelled for the year ended 31 December 2023.

In the light of the above, it is disclosed herein that (i) the number of options cancelled during the year ended 31 December 2023 was nil; (ii) the number of options available for grant under the New Share Option Scheme at the beginning of the year ended 31 December 2023 was nil; and (iii) the number of Shares that may be issued in respect of options granted under the New Share Option Scheme (following the grant of options as disclosed above and as of 31 December 2023) divided by the weighted average number of Shares of the relevant class in issue for the year ended 31 December 2023 was 0.1.

Save as disclosed above, the contents of the 2023 Annual Report remain unchanged.

By Order of the Board
Gilston Group Limited
Yip Siu Lun Dave
Chairman and executive Director

Hong Kong, 5 September 2024

As at the date of this announcement, the executive Directors are Mr. Yip Siu Lun Dave, Mr. Mak Yung Pan Andrew, Mr. Wu Cody Zhuo-xuan and Ms. Cheung Ka Yuen; the non-executive Director is Ms. Lin Ping; and the independent non-executive Directors are Mr. Leung Ka Tin, Mr. Cheng Hong Kei and Mr. Ko Kwok Shu.