Cocoon Holdings Limited
中國天弓控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

(Stock Code: 428)

SUPPLEMENTAL ANNOUNCEMENT IN RESPECT OF ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the annual report of Cocoon Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2018 published by the Company on 25 April 2019 (the "**2018 Annual Report**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2018 Annual Report.

Further to the information disclosed in the 2018 Annual Report, the Company wishes to provide to the Shareholders and the potential investors with the following supplementary information:

In the section "Fund Raising Activities" in the 2018 Annual Report, it was stated the Company completed a placing under general mandate (the "**Placing**") on 12 October 2018 which generated net proceeds of approximately HK$19.73 million. The Board would like to disclose the proposed application of the unutilised net proceeds with the expected timeline in utilising the unutilised net proceeds in relation to the net proceeds from the Placing as follows:

Date of announcement	Event	Net proceeds raised	Intended use of net proceeds	Actual use of proceeds
21 September 2018 (completed on 12 October 2018)	Placing of 19,980,000 ordinary Shares under general mandate of the Company	Approximately HK$19,730,000	(i) Approximately HK$10,000,000 for investment in the listed and/or unlisted securities	Approximately HK$10,000,000 was used for investment in the unlisted securities

Date of announcement	Event	Net proceeds raised	Intended use of net proceeds	Actual use of proceeds
			(ii) Approximately HK$9,730,000 for repayment of the Group's payables and as the Group's general working capital	Approximately HK$5,030,000 was used for repayment of the Group's payable and operation expenses and the remaining balance of approximately HK$4.7 million was maintained at the Group's bank account and will be utilised as intended as general working capital of the Group within 7 months after the date of the publish of the 2018 Annual Report

SIGNIFICANT INVESTMENTS HELD AND THEIR PERFORMANCE

The Company wishes to provide a further discussion on the performance and prospects of the Group's significant investments, the details of which are stated in notes 21 to 23 to the consolidated financial statements for the year ended at 31 December 2018 and the section "Significant investments held and their performance" in the 2018 Annual Report. Pursuant to the requirements stipulated in Rule 21.12 of the Listing Rules, the Company discloses its ten largest investments and all individual investments with value exceeding 5% of the Company's gross assets with brief description of the investee companies are as follows:

Unlisted Convertible Bond Investment — Profit Gain Finance Limited ("Profit Gain")

On 13 April 2015, the Company subscribed a convertible bond which was issued by Profit Gain and originally matured on 13 April 2019 ("**CB2**"), which was extended to 13 April 2020 by mutual consents of the Company and Profit Gain on 8 March 2019.

Profit Gain is a company incorporated in Hong Kong and principally engaged in money lending business to corporate and private clients in Hong Kong. Profit Gain is licenced under the Hong Kong Money lenders Ordinance as a licenced money lender in Hong Kong. Profit Gain continued to focus on conducting money lending business by providing both secured and unsecured loans to customers, including individuals and corporations.

The Group held CB2 with fixed interest at 9% per annum. The interest income recognised of the Group from CB2 for the year ended 31 December 2018 was approximately HK$1.8 million. Based on the latest management account of Profit Gain, the unaudited net loss for the year ended 31 March 2018 was approximately HK$78,000, which was mainly due to the keen competition of money lending business in Hong Kong and the down trend risk of economy in Hong Kong. The net liability value of Profit Gain as at 31 March 2018 was approximately HK$5.7 million. Given, (i) the current assets as at 31 March 2018 of Profit Gain was approximately HK$14.2 million and the principal liabilities at 31 March 2018 of Profit Gain was CB2 due to the Company, accordingly the current assets of Profit Gain can cover majority of the principal amount of CB2 and (ii) the money lending industry will be benefited from the low interest rate since currently the interest rate is on the down trend globally, the money lending industry in Hong Kong is affected by the general economic conditions of Hong Kong and the demand for credit facilities correlates to both consumer sentiments to spend and corporate sentiments to invest and the level of interest rate, the Group considers that the default risk of the CB2 was low. In addition, the CB2 is continuing to generate interest income for the Group up to its expiry date.

Unlisted Convertible Bond Investment — HF Financial Group (Hong Kong) Limited (“HF”)

On 28 July 2016, the Company subscribed a convertible bond which was issued by HF and originally matured on 28 July 2019 (“**CB5**”), which was extended to 28 July 2020 by mutual consents of the Company and HF on 26 July 2019.

HF is a company incorporated in Hong Kong and principally engaged in securities brokerage business and asset management business. The Group held CB5 with fixed interest at 8% per annum. The interest income recognised of the Group from CB5 for year ended 31 December 2018 was approximately HK$1.6 million. Based on the management account of HF, the unaudited net loss for the year ended 31 December 2018 was approximately HK$15.0 million which was mainly due to fluctuation of Hong Kong stock market and competition of brokerage securities business in Hong Kong. Net asset value of HF as at 31 December 2018 was approximately HK$52.6 million. Given (i) more business from launching Shanghai Connect and Shenzhen Connect may create more room and opportunities for securities brokerage business, although the securities brokerage business was competitive, and the new co-operation of Hong Kong securities market and China securities market have created opportunities for assets management business as well, and (ii) the net asset value of HF was much higher than the principal amount of CB5, the Group considers that the default risk of the CB5 was low. In addition, the CB5 is continuing to generate interest income for the Group up to its expiry date.

Private Equity Fund Investment — HF Pre-IPO Fund (the "Fund")

On 29 June 2018, the Group subscribed 39.25% of a private equity fund which incorporated in the Cayman Islands of principal value of approximately HK$19.0 million.

The Fund is principally engaged in investment in small/medium size enterprises in Hong Kong, China and South East Asia which are potentially to be listed on main board or GEM of the Stock Exchange. The fair value as at 31 December 2018 of HF Pre-IPO Fund was approximately HK$13.5 million. The Group subscribed 39.25% equity interest of HF Pre-IPO fund which represented approximately HK$13.5 million net asset value of HF Pre-IPO Fund. The unrealised loss recognised by the Group in relation to the investment in HF Pre-IPO fund was approximately HK$5.5 million which was mainly due to the fluctuation of the stock market during the year. No dividend has received by the Group during the year ended 31 December 2018. The Group considers that the performance of HF Pre-IPO Fund was impacted by recent fluctuation of stock market in 2018 and the Board had the view that the stock market of Hong Kong would return to positive growth. The Board believes that the performance of HF Pre-IPO Fund will be align with the trend of stock market.

Private Equity Investment — HF Finance Limited ("HF Finance")

HF Finance is a private equity incorporated in Hong Kong, which principally engaged in provision of money lending business. The Group held 18.18% of equity interest of HF Finance. Based on the management account of HF Finance, the net loss for the year ended 31 December 2018 was approximately HK$4.0 million, which was mainly due to the keen competition of money lending business in Hong Kong, and the net liability value as at 31 December 2018 was approximately HK$101,000. The unrealised loss recognised by the Group in relation to the investment in HF Finance was approximately HK$1.8 million based on the valuation conducted by an independent valuer who adopted income method for the valuation methodology. No dividend was received by the Group during the year ended 31 December 2018. As the investment was made by the Group only 6 months ago, the Board would like to use more time to oversee the performance of HF Finance and the Board believes that the money lending industry will be benefited from the low interest rate as the interest rate is on the down trend globally. The Group will closely monitor the performance of HF Finance.

Private Equity Investment — Perfect Path Limited ("Perfect Path")

Perfect Path is a private equity incorporated in Anguilla, which principally engaged in gold mining business. The Group held 20.00% of equity interest of Perfect Path, despite the Group held 20.00% of the voting power in Perfect Path, however, under contractual arrangements, the other shareholders control the composition of the board of directors and have control over Perfect Path. Perfect Path owns a gold mine in Thailand. No income was generated during the year ended 31 December 2018 since Perfect Path still not deployed their business. The net asset value of Perfect Path as at 31 December 2018 was approximately HK$151.5 million. Perfect Path will put into production after infrastructure to be ready which is expected to be done after 3 years. The gold price has experienced a general increase over the past decade, representing a compound annual growth rate of approximately 2.64% during 2008 to 2018. The Board considers that the gold price will be in the same trend with the past decade, and therefore, the Group can enjoy the appreciation of gold mine holding by Perfect Path.

Listed Securities Investment — On Real International Holdings Limited ("On Real")

On Real is a company incorporated in Cayman Islands which is listed on GEM of the Stock Exchange (stock code: 8245). On Real is a two-way radio product designer and manufacturer established in 2001. On Real derived revenue principally from designing, manufacturing and selling two-way radios and baby monitor products on original design manufacturing basis. Based on the interim report for the six months ended 30 September 2018 of On Real, the net profit for the six months ended 30 September 2018 was approximately HK$5.4 million. Comparing with the net loss of approximately HK$6.5 million for the six months ended 30 September 2017, the significant improvement of the result in the six months ended 30 September 2018 was mainly due to the result of cost restructuring plan of On Real to deploy more subcontracting arrangement to enhance the flexibility in terms of fixed cost commitment to reduce the costs of production and contingent liabilities for the labour cost. The net asset value of On Real as at 30 September 2018 was approximately HK$78.2 million. No dividend was received by the Group during the year ended 31 December 2018. According to the interim report of On Real for the period ended 30 September 2018, approximately 50% of the total revenue were derived from the US market. The US market of two-way radio and baby monitor were the largest market in the world and it was appropriate marketing strategy of On Real to focus on the US market. The Board appreciated the effective marketing strategy and the growing performance of On Real during the period, the Group would hold the investment in On Real to earn the capital appreciation and the Group will closely monitor the performance of On Real in the future.

Listed Securities Investment — Classified Group (Holdings) Limited ("Classified")

Classified is a company incorporated in Cayman Islands which is listed on GEM of the Stock Exchange (stock code: 8232). Classified is principally engaged in restaurant operations in Hong Kong. Based on the interim report for the six months ended 30 June 2018 of Classified, the net loss for the period was approximately HK$9.1 million. Comparing with the net loss of approximately HK$21.1 million for the six months ended 30 June 2017, the significant improvement of the result in the six months ended 30 June 2018 was mainly due to the decrease in staff costs, property rentals and related expenses and depreciation, which were primarily attributable to the closure of a loss making restaurant in September 2017. The net asset value of Classified as at 30 June 2018 was approximately HK$107.8 million. No dividend was received by the Group during the year ended 31 December 2018. Classified restaurants are a collection of casual European cafés specializing in artisan breads, cheeses and boutique wines, and are renowned for their breakfast and all-day dining menu. Offering casual seating areas in most locations, Classified encourages neighbourhood street-level interaction. Classified has over ten restaurants in Hong Kong mainly in commercial areas. According to the interim report of Classified for the six months ended 30 June 2018, they plan to (i) open four new restaurants; (ii) enhance and upgrade their existing restaurant facilities; and (iii) enhance premium food and fine wine programme in order to entice higher spending customers to visit restaurants. The Board believes such strategies are good fit with the consumer market and the performance of Classified became better during the period, the Group would hold the investment in Classified and will closely monitor the performance of Classified.

Listed Securities Investment — Kinetix Systems Holdings Limited ("Kinetix")

Kinetix is a company incorporated in Cayman Islands which is listed on GEM of the Stock Exchange (stock code: 8606). Kinetix is principally engaged in the provision of IT solutions, maintenance and supporting services in Hong Kong and Macau. Based on the interim report for the six months ended 30 June 2018 of Kinetix, the net loss for the period was approximately HK$3.7 million. Comparing with the net profit of approximately HK$42,000 for the six months ended 30 June 2017, the decrease of the net profit for the six months ended 30 June 2018 of Kinetix was mainly attributable to net effect of (i) the increase in revenue by approximately HK$17.8 million; (ii) the increase in cost of sales by approximately HK$12.0 million; (iii) the increase in selling expenses by approximately HK$0.6 million; (iv) the increase in administrative and general expenses by approximately HK$3.2 million; and (v) the increase in listing expenses by approximately HK$5.4 million. The net asset value of Kinetix as at 30 June 2018 was approximately HK$40.8 million. No dividend was received by the Group during the year ended 31 December 2018. As the main reason of the net loss of Kinetix for the six months ended 30 June 2018 was one-off listing expenses incurred during the period, it was expected that the performance of Kinetix would not be affected by such one-off expenses in coming future. The industry of IT consulting services encompassed challenges as well as boundless opportunities, Kinetix can enjoy the wave of IT with good business strategy and position. According to Kinetix's interim report for the six months ended 30 June 2018, they would continue to focus on its core businesses and provide innovative and integrated IT consulting services to customers, to enable its corporate and institution customers to extract maximum value from their IT engagements. The Board believes that Kinetix can catch up the opportunities and therefore the Group would hold the investment in Kinetix and will closely monitor the performance of Kinetix.

Unlisted Loan Note Investment — Zhongda International Holdings Limited ("Zhongda")

On 8 August 2016, 5 April 2017 and 9 April 2018, the Group had subscribed three trenches of HK$ denominated loan notes from Zhongda a corporation incorporated in Bermuda with limited liability which was principally engaged in trading of consumer electronic products. The Group held LN1, LN2 and LN3 with fixed interest at 8.5% per annum. In FY2018, the interest income recognised by the Group from LN1, LN2 and LN3 were HK$255,000, HK$255,000 and HK$342,000 respectively. The impairment loss recognised during the year were HK$514,000, HK$514,000 and HK$943,000 respectively. Based on the management account of Zhongda, the unaudited net loss for the six months ended 30 June 2018 was approximately HK$7.4 million compared with the same period of 2017 of approximately HK$5.3 million. The increase of the net loss was mainly due to increase of administrative expense and finance cost of approximately HK$1.3 million and approximately HK$0.7 million respectively. The increase of the administrative expense was mainly due to the increase of the legal and professional fee in relation to the proposed acquisition and resumption proposal. Furthermore, the increased finance cost was mainly due to the interest payment of additional working capital loan for the legal and professional fee and deposit paid for the proposed acquisition. As at 30 June 2018 the net liability value of Zhongda was approximately HK$30.7 million. The Board considers that holding the fixed interest income from loan notes was in the interest of the Group to obtain a stable cash inflow.

Unlisted Loan Note Investment — 深圳達隆通用包裝機械有限公司 ("達隆通用")

The Group had subscribed a loan note issued by 達隆通用 which was private entity established in the PRC, which was principally engaged in developing and designing mechanical equipment. 達隆通用 has been developing and producing intelligent garbage collection systems and production equipment for nearly 10 years. LN4 was issued on 14 November 2018 and will mature after three years from date of issue. LN4 bears fixed interest at 10% per annum and is measured at amortised cost. The interest income recognised of the Group from LN4 was HK$316,000. The impairment loss recognised during the year was HK$1,604,000. Based on the management account of 達隆通用, the unaudited net profit for the year ended 31 December 2018 was approximately HK$15.5 million. As at 31 December 2018, the net asset value of 達隆通用 was HK$15.4 million. The Board considers the industry of intelligent garbage collection systems and production equipment have great prosperity and the Board expects that 達隆通用 will keep the growth trend in the future accordingly. Therefore, holding the fixed interest income from loan notes was in the interest of the Group to obtain a stable cash inflow.

Unlisted Loan Note Investment — 深圳達隆包裝機械設備有限公司 ("達隆包裝")

The Group had subscribed a loan note issued by 達隆包裝 which was private entity established in PRC, which was principally engaged in providing integrated R&D, design, sales and after-sales service in packaging equipment. LN5 was issued on 14 November 2018 and will mature after three years from date of issue. LN5 bears fixed interest at 10% per annum and is measured at amortised cost. The interest income recognised of the Group from LN5 was HK$315,000. The impairment loss recognised during the year was HK$1,417,000. Based on the management account of 達隆通用, the unaudited net profit for the year ended 31 December 2018 was approximately HK$15.6 million. As at 31 December 2018, the net asset value of 達隆包裝 was HK$15.4 million. The packaging equipment market was set to grow from its current market value of more than US$38 billion to more than US$47 billion by 2024, according to a new research report from Global Market Insights Inc. Demand for packaging equipment is primarily driven by the development of energy-efficient equipment, increasing adoption of automated packaging machines and consumer demand for personal care goods. The Board considers that the packaging equipment industry has great potential, and expected that 達隆包裝 will keep the growth trend in the future. Therefore, holding the fixed interest income from loan notes was in the interest of the Group to obtain a stable cash inflow.

Save as disclosed above, all other information in 2018 Annual Report remains unchanged.

By Order of the Board
Cocoon Holdings Limited
Wu Ming Gai
Chairman

Hong Kong, 30 August 2019

As at the date hereof, the board of directors of the Company comprises two executive directors, namely Mr. Wu Ming Gai and Ms. Chan Carman Wing Yan; three non-executive directors, namely Mr. William Keith Jacobsen, Mr. Chen Albert and Mr. Wong Chung Yan Sammy; and three independent non-executive directors, namely Ms. Chan Man Yi, Ms. Leung Yin Ting and Mr. Jiang Qian.