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LAUNCH

深圳市元征科技股份有限公司

LAUNCH TECH COMPANY LIMITED*

(a joint stock limited company incorporated in the People’s Republic of China with limited liability)

(Stock code: 2488)

Financial Advisor to the Company



MAJOR TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY

THE DISPOSAL

On 30 August 2022 (after trading hours of the Stock Exchange), the Company and Launch Europe GmbH, a direct wholly-owned subsidiary of the Company, the Target Company and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Capital at the total Consideration.

Upon Completion, the Company will cease to hold any interests in the Target Company and the Target Company will cease to be a subsidiary of the Company. Accordingly, the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Disposal as calculated under Rule 14.07 of the Listing Rules exceed 25% but are less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and will be subject to the reporting, announcement, circular and Shareholders’ approval requirements under the Listing Rules.

GENERAL

An SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder. A circular containing, among other things, (i) details of the Disposal; (ii) a property valuation report in respect of the Property; (iii) notice of the SGM; and (iv) other disclosures required under the Listing Rules, will be despatched to the Shareholders on or before 21 September 2022.

Completion is conditional upon the satisfaction of the conditions set out in the section headed “Conditions Precedent” in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise cautions when dealing in the securities of the Company and, if in any doubt, are recommended to consult their professional adviser(s).

INTRODUCTION

On 30 August 2022 (after trading hours of the Stock Exchange), the Vendors, the Target Company and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Capital at the total Consideration.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarized as follows:

Date:	30 August 2022 (after trading hours of the Stock Exchange)
Vendor 1:	The Company, holder of 75% of the entire issued share capital of the Target Company.
Vendor 2:	Launch Europe Gmbh, holder of 25% of the entire issued share capital of the Target Company.
Purchaser:	Shanghai Anting United Investment Economic Development Co., Ltd.* (上海安亭聯投經濟發展有限公司)
Target Company:	Shanghai Launch Mechanical Equipment Co., Ltd. (上海元征機械設備有限責任公司)

Asset to be disposed

Pursuant to the Equity Transfer Agreement, the Vendors conditionally agreed to dispose of, and the Purchaser conditionally agreed to acquire, the Sale Capital, representing the entire registered capital of the Target Company.

As at the date of this announcement, the principal asset of the Target Company is the Property. Further details of the Target Company are set out in the section headed “Information on the Target Company” in this announcement.

Consideration

The total Consideration is RMB350,000,000. Pursuant to the Equity Transfer Agreement, the Purchaser shall pay 75% of the Consideration to Vendor 1, being RMB262,500,000 and 25% of the Consideration to Vendor 2, being RMB87,500,000.

The Consideration was arrived at after arm’s length commercial negotiations between the Vendors and the Purchaser and was determined with reference to:

1. the indicative fair value of the Property of approximately RMB279,450,000 as at 30 June 2022 as prepared by an independent professional valuer;
2. the fair value of the 100% equity interest of the Target Company of RMB354,011,177 as at 30 June 2022 as prepared by independent professional valuer;
3. the net asset value of the Target Company of RMB147,522,289.72 as at 30 June 2022, further details of which are set out in the section headed “Information of the Target Company” in this announcement; and
4. the benefits to be derived by the Group from the Disposal as stipulated in the section headed “Reasons for and Benefits of the Disposal”.

The Board is of the view that the Consideration is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Payment conditions

The Consideration for the Disposal shall be payable by the Purchaser to the Vendor in the following manner:

1. the first instalment: the Purchaser shall pay Vendor 1 RMB5,000,000 within 3 Business Days after the Effective Date;
2. the second instalment (“**Second Instalment**”): the Vendors shall, within 30 days after the Effective Date of the Equity Transfer Agreement and after receiving the first instalment of the Consideration, release certain encumbrances as required in the Equity Transfer Agreement. The Vendors shall produce documents in relation to such releases to the Purchaser and the Purchaser shall confirm with the Vendors within 3 Business Days after receiving such documents that the Purchaser has no objections (in the event the Purchaser fails to confirm within the time limit, the Purchaser shall be deemed to have no objection). After the Purchaser has confirmed it has no objection, the Purchaser shall pay RMB45,000,000 to Vendor 1 within 5 Business Days after the Purchaser’s confirmation of no objection;

in addition to the above, the Vendors shall, within 30 days after the Effective Date, terminate the employment between the Target Company and 90% of the Target Company's employees and compensate such employees according to the relevant labor law ("**90% Employees Termination**"). Upon settling such compensations, the Vendors shall provide the Purchaser with a list of compensations ("**List of Employee Compensation**") for the purpose of distributing such compensation costs between the Vendors and the Purchaser in accordance with the Equity Transfer Agreement. The Purchaser's confirmation of the List of Employees Compensation and of the release of the encumbrances under this Second Instalment paragraph are also pre-conditions to the Second Instalment;

3. the third instalment ("**Third Instalment**"): Within 7 days after the fulfillment of the following conditions, the Purchaser shall pay Vendor 1 RMB168,750,000 and Vendor 2 RMB78,750,000 respectively:
 - (1) within 3 Business Days after receiving the Second Instalment, the Vendors shall pay off or transfer other creditor's rights and debts of the target company to a third-party company ("**Debt Settlement**"), and hand over the information in relation to the Debt Settlement to the Purchaser; should there be any delay in the Debt Settlement, the Purchaser shall be entitled to terminate the Equity Transfer Agreement according to the arrangements under the heading "Termination" below;
 - (2) within 3 Business Days after receiving information in relation to the Debt Settlement, the Vendors shall cooperate with the Purchaser in handling the application for registration of the Disposal;
 - (3) the Vendors having wholly transferred the Property to the Purchaser;
 - (4) the business registration having been approved, and the Purchaser has obtained the new business license as the sole shareholder of the Target Company; and
 - (5) prior to the business registration having been approved, the Purchaser having verified the status in relation to the Debt Settlement;

in addition to the above, the Vendors' completion of the 90% Employees Termination is also a pre-condition to the Third Instalment;

the Vendors undertake to, within 3 days after handling (1) – (5) above, cooperate with the Purchaser in handling change of business registrations as required by the Purchaser. The Vendors shall provide relevant materials within 2 Business Days after receiving notification from the Purchaser requesting for assistance to effect the change. Should there be any delay in satisfying this condition, the Purchaser shall be entitled to terminate the Equity Transfer Agreement according to the arrangements under the heading "Termination" below;

4. the fourth instalment (“**Fourth Instalment**”): within 2 months after Completion, the Purchaser shall pay 5% of the Consideration to Vendor 1, being RMB 17,500,000;

in addition to the above, the Vendors shall, within 2 months from Completion and the payment of the Third Instalment, terminate the employment between the Target Company and the remaining 10% of the Target Company’s employees and compensate such employees (“**10% Employees Termination**”). The Vendors completion of the 10% Employees Termination is also a pre-condition to the Fourth Instalment.

5. the fifth instalment: within 1 year after Completion, the Purchaser shall pay 9% of the Consideration to the Vendors, being RMB23,625,000 to Vendor 1 and RMB7,875,000 to Vendor 2; and
6. the sixth instalment: within 3 years after the Disposal, the Purchaser shall pay 1% of the Consideration to the Vendors, being RMB2,625,000 to Vendor 1 and RMB875,000 to Vendor 2.

Delivery of Property

The Vendors shall deliver the Property (“**Delivery of Property**”) to the Purchaser in the following manner:

The Vendors shall, prior to 31 August 2022, deliver to the Purchaser the rental portion of the Property (Towers 8-11) and relevant information of the rental portion of the Property (except for the title certificate).

The Vendors shall, prior to 30 September 2022, deliver to the Purchaser the self-used portion of the Property (Towers 1-6).

The parties have agreed that rental income prior to 31 August 2022 shall be collected by the Vendors, whereas rental income from 1 September 2022 onwards shall be collected by the Purchaser.

With regards to the deposits collected by the Vendors and the Target Company prior to 1 September 2022 in the amount of RMB2,728,775 (or the actual deposit amount otherwise received), the Purchaser shall be entitled to deduct such amount from the payment from the Third Instalment.

The Purchaser shall cancel and compensate rental arrangements in relation to Properties held by the Target Company. The Purchaser shall bear expenses arising from the cancellation of such rental arrangements.

Conditions precedent

Completion shall be conditional upon and subject to the fulfillment and satisfaction of the following (“**Conditions Precedents**”):

1. relevant authorities (including but not limited to the State Administration for Market Regulation) have approved the Disposal and issued relevant licenses;
2. the changes of legal representative of the Target Company as stated in the relevant business and taxed related qualification certificates have been completed;

3. the Purchaser having confirmed in writing its receipt of all such documents such as licenses, financial ledgers, asset certificates and bank account opening materials handed over by the Vendors (the Purchaser shall confirm in writing within 3 working days after receipt of such documents);
4. the physical delivery of the assets and business premises of the Target Company have been completed; and
5. the passing of the ordinary resolution(s) to approve the Equity Transfer Agreement and the transactions contemplated thereunder by the Shareholders at the SGM to be convened and held in accordance with the Listing Rules and the applicable laws and regulations.

Completion

Completion shall take place upon the fulfilment of the Conditions Precedents, and in any event, shall not be later than the Long Stop Date.

As at the date of this announcement, the Company, as Vendor 1, is interested in 75% of the entire issued share capital of the Target Company and Vendor 2 is interested in 25% of the entire issued share capital of the Target Company which collectively comprise the entire issued share capital of the Target Company. Upon Completion, the Vendors will cease to hold any interest in the Target Company.

Events of Default

Vendors' Default

From the Effective Date, in an event of default (“**Vendors' Default**”) by the Vendors under the Equity Transfer Agreement, the Vendors shall be jointly liable to the Purchaser for a penalty (“**Vendors' Penalty**”) amounting to 20% of the Consideration or the actual loss suffered by the Purchaser (whichever is higher). The Purchaser shall be entitled to directly deduct the Vendor's Penalty from the unpaid portion of the Consideration. Vendors' Default include the following:-

1. the Vendors violation of any undertakings or warranties under the Equity Transfer Agreement, causing significant adverse impact on the Target Company or the Purchaser;
2. the Target Company's undeclared debts and/or unpaid taxes exceed RMB500,000 (including, but not limited to, those found in financial due diligence but not paid, except for taxes that have not been paid for the time being based on laws and regulations or tax collection and management/payment practices but have been paid for afterwards); save for where such liabilities are repaid within 10 Business Days from the date when the Vendors become aware of them;
3. if within 30 days after the Purchaser calls for payment, the Vendors still fail to repay the undeclared debts or unpaid taxes of the Target Company;
4. the Vendors provided false or erroneous information, concealed facts, misleading the Purchaser to purchase the Sale Capital;

5. prior to Completion, the Vendors unauthorizedly disposed of the Sale Capital or the Property, created certain new liabilities which are restricted by the Equity Transfer Agreement, or other acts which may adversely affect the Purchaser's interests; or
6. the Vendors failure to perform any obligation under the Equity Transfer Agreement for more than 30 days from the relevant due date and have not performed such obligations within 10 days after the Purchaser has provided a written reminder notice.

Either Party's Default

If for the Vendors' reason, the Delivery of Property or the Disposal is not completed within the designated time periods, the Vendors shall be jointly liable to pay a penalty of RMB30,000 each per day to the Purchaser until the Disposal is completed.

Vice versa, if for the Purchaser's reason (and not the Vendors'), the Consideration is not settled in the time and manner as agreed, the Purchaser shall be liable to pay a penalty of RMB30,000 per day to the Vendors until the Consideration is fully settled.

Termination

Neither party shall unauthorizedly terminate the Equity Transfer Agreement.

In the event of a breach by a party causing the Equity Transfer Agreement to be unable to be performed, the breaching party shall be liable to pay 20% of the total Consideration to the non-breaching party as a penalty, the total liability for breach under the Equity Transfer Agreement shall be limited by such amount.

Upon settlement of such penalty, the Equity Transfer Agreement shall be terminated ("**Termination**"), and all parties shall return any Consideration obtained from the counterparty under the Equity Transfer Agreement within 30 days from termination, restore any change of business registration, and restore to the position prior to the signing of the Equity Transfer Agreement.

INFORMATION OF THE VENDORS

The Company, as Vendor 1, is an investment holding, joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed on the main board of the Stock Exchange and holds 75% of the entire issued share capital of the Target Company.

Vendor 2 is a company incorporated in Germany and a direct wholly-owned subsidiary of the Company, which principally engages in the business of sales of computer software and hardware, consulting services of electronic products and technical and holds 25% of the entire issued share capital of the Target Company.

The Group is principally engaged in the provision of products and services serving the automotive aftermarket and the automobile industry in the PRC and certain overseas countries such as Germany, Japan and Korea. Their services cover the research, development and production of automotive diagnosis, testing, maintenance and tire equipment.

INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in the PRC with limited liability which principally engages in the business of investment, in particular, using rentable real estate and available funds to acquire high quality operating resources.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are Independent Third Parties of the Company and its connected persons.

INFORMATION ON THE TARGET COMPANY

The Target Company is a Sino-foreign cooperative joint venture set up in the PRC by the Vendors in accordance with the laws of the PRC. The Target Company was established to operate the Group's automotive lift factory in Shanghai. The principal business of the Target Company is manufacturing and selling of automotive lifting machine and other self-produced automobile repairing products (primarily lifting machines) and property management.

Set out below is the financial information of the Target Company as extracted from its audited consolidated financial statements prepared under generally accepted accounting principles of the PRC for the two financial years ended 31 December 2020 and 2021:

	For the year ended 31 December 2021 RMB (audited)	For the year ended 31 December 2020 RMB (audited)
Revenue	251,562,896.58	208,926,810.77
Profit/Loss before taxation	<u>2,900,343.93</u>	<u>(131,492.10)</u>
Profit/Loss after taxation	<u><u>1,246,421.90</u></u>	<u><u>(144,857.87)</u></u>

As at 30 June 2022, according to the unaudited accounts of the Company, the unaudited net asset value of the Target Company was RMB147,522,289.72.

As at 30 June 2022, according to an independent professional valuer, the indicative fair value of the Property is approximately RMB279,450,000.

As at 30 June 2022, according to an independent valuer, the fair value of 100% equity interest of the Target Company is RMB354,011,177.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company is of the view that the Disposal is in line with the Group's business development plans. In the second half of the current financial year, the Group plans to cease its automotive lift production business in Shanghai. The original automotive lift production business will shift to be produced by the cooperative manufacturers.

While the Group's automotive lift production business in Shanghai has sustained a stable performance in recent years, the Group observed that the costs for maintaining this business area has been escalating. In the past two years, the Group's automotive lift production business has accounted for approximately 20% of the Group's total business, demonstrating stability in its performance. However, the cost of raw materials as well as maintenance and upgrade of production equipment has increased, causing the gross profit margin to gradually decline to approximately 4% in year 2021. In order to improve its gross profit margin, the Group seeks to shift to production by cooperative manufacturer, thus minimizing the costs of sourcing raw materials as well as maintaining heavy equipment. By doing so, the Group expects to enhance the profitability of the Group's automotive lift business.

As the Target Company mainly holds the Property on which the factory for the automotive lift is situated, which primarily serves the Group's automotive lift production business, the cessation of the automotive lift production business in Shanghai has caused the Group's demand for the Target Company and its assets to sharply decline. As such, the Group has decided to dispose of its interest in the Target Company, thus converting such assets into available resources for other viable business aspects of the Group.

The Group expects the impact of the Disposal to be minimal on the Group's business. The annual rental income of the Property (should it not be disposed) is expected to be approximately RMB12,000,000, whereas the annual operating expenses saved by the Disposal is expected to be approximately RMB11,000,000. As such, it is expected that the amount saved from the Disposal will be able to offset expected income which could have been derived from the Target Company and the Property had they not been disposed. Furthermore, the existing loans of the Group secured by the Target Company's guarantee and the Property will be replaced by other properties of the Group, and hence such existing loans will not be affected by the Disposal. As such, the Disposal will not materially disrupt the ordinary business of the Group.

Following the Disposal and after deducting the various expenses arising from the Disposal, the Group expects to generate additional liquid capital of approximately RMB330,000,000 and an expected gain of approximately RMB260,000,000. The increased liquid capital can be used by the Group as its general working capital for future investment in the development when the opportunity arises and research and development of high-tech projects related to the automotive industry.

USE OF PROCEEDS

The Company intends to apply the entire net proceeds from the Disposal of approximately RMB330,000,000 to the general working capital of the Group.

The terms of the Equity Transfer Agreement were arrived at after arm's length negotiation between the Vendors and the Purchaser and the Directors consider that the terms of the Equity Transfer Agreement are on normal commercial terms, fair and reasonable and as such the Disposal is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE DISPOSAL

Upon Completion, the Company will cease to hold any interests in the Target Company and the Target Company will cease to be a subsidiary of the Company. Accordingly, the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Company.

It is expected that the Group will record an unaudited gain before taxation and after transaction cost on the Disposal of approximately RMB260,000,000, which is calculated based on the total Consideration less (i) the unaudited net asset value of the Target Company as at 30 June 2022 of approximately RMB148,000,000; (ii) add the unaudited net asset value adjustment of the Target Company for the period from 1 July 2022 to the date of this announcement of approximately RMB78,000,000; and (iii) the related costs and expenses of the Group for the Disposal of approximately RMB20,000,000.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Disposal as calculated under Rule 14.07 of the Listing Rules exceed 25% but are less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

An SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder. A circular containing, among other things, (i) details of the Disposal; (ii) a property valuation report in respect of the Property; (iii) notice of the SGM; and (iv) other disclosures required under the Listing Rules, will be despatched to the Shareholders on or before 21 September 2022 to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

Completion is conditional upon the satisfaction of the conditions set out in the section headed "Conditions Precedent" in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise cautions when dealing in the securities of the Company and, if in any doubt, are recommended to consult their professional adviser(s).

DEFINITIONS

“Board”	the board of Directors
“Business Day(s)”	any day(s) (excluding Saturday, Sunday and public holiday in Hong Kong), on which licensed banks are generally open for business in Hong Kong and the PRC
“Company”	Launch Tech Company Limited* (深圳市元征科技股份有限公司) (stock code: 2488), a company incorporated in the PRC with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Disposal in accordance with the terms and conditions of the Equity Transfer Agreement
“Completion Date”	the date of Completion
“Conditions Precedent”	the conditions precedent set out in the Equity Transfer Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the total consideration for the Disposal pursuant to the Equity Transfer Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of the Sale Capital by the Vendors to the Purchaser pursuant to the Terms and conditions of the Equity Transfer Agreement
“Effective Date”	the date of the passing of the ordinary resolution(s) in the SGM whereby the Equity Transfer Agreement becomes legally effective
“Equity Transfer Agreement”	the equity transfer agreement dated 30 August 2022 entered into between the Purchaser, the Vendors and the Target Company in relation to the sale and purchase of the Sale Capital
“Group”	collectively, the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the 60th day after the Effective Date and if the Purchaser delays in payment of the Consideration, the Long Stop Date shall be extended accordingly
“PRC” or “China”	the People’s Republic of China
“Property”	the industrial property located at No. 661 Bai’an Road, Anting Town, Jiading District, Shanghai, China* (中國上海市嘉定區安亭鎮百安路661號), which the Target Company has the right to occupy, use, dispose of and benefit
“Purchaser”	Shanghai Anting United Investment Economic Development Co., Ltd.* (上海安亭聯投經濟發展有限公司), a limited liability company established under the laws of PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Capital”	The entire registered share capital of the Target Company
“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the transactions as contemplated under the Equity Transfer Agreement
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company”	Shanghai Launch Mechanical Equipment Co., Ltd. (上海元征機械設備有限公司), a limited liability company established under the laws of the PRC
“Vendor 1”	The Company, holder of 75% of the entire issued share capital of the Target Company.
“Vendor 2”	Launch Europe GmbH, holder of 25% of the entire issued share capital of the Target Company.
“Vendors”	collectively Vendor 1 and Vendor 2
“%”	per cent

By Order of the Board
Launch Tech Company Limited*
Liu Xin
Chairman and Executive Director

30 August 2022
Shenzhen, the PRC

As at the date of this announcement, the board of directors of the Company comprises Mr. Liu Xin (Chairman), Mr. Liu Guozhu, Ms. Huang Zhao Huan and Mr. Jiang Shiwen as executive Directors, Mr. Peng Jian as non-executive Director, and Ms. Zhang Yanxiao and Mr. Ning Bo as independent non-executive Directors.

* For identification purpose only