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FREEMAN FINANCIAL CORPORATION LIMITED

民豐企業控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 279)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 23.43% BENEFICIAL INTERESTS IN LIU'S HOLDINGS LIMITED; AND

(2) PROFIT WARNING

THE AGREEMENT

On 17 May 2011 (after trading hours), Ambition Union Limited, a wholly owned subsidiary of the Company, entered into the Agreement with (1) Mr. Liu Lit Man, *GBS, JP, FIBA* ("Mr. L M Liu"), (2) Mrs. Liu Heu Seu Chu Pearl ("Mrs. Liu") and (3) Mr. Andrew Liu ("Mr. A Liu"), pursuant to which Ambition Union Limited agreed to sell the beneficial interests in the Sale Shares to Mr. L M Liu and Mrs. Liu at the aggregate consideration of HK\$425,729,493.92.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined under the Listing Rules) for the Disposal are more than 25% but less than 75%, the Disposal constitutes a major transaction of the Company under the Listing Rules. Mr. L M Liu and Mrs. Liu are parents of Mr. A Liu. Mr. Winston Liu is the son of Dr. Liu Lit Mo, *LLD, MBE, JP* (who is one of the shareholders of Liu's Holdings). Mr. Winston Liu is also a cousin of Mr. A Liu. Mr. A Liu is a connected person of the Company by virtue of his substantial shareholdings and directorship in the Company, and Mr. Winston Liu is also a connected person of the Company by virtue of his directorship in the Company. The Disposal constitutes a non-exempted connected transaction which is subject to the reporting, announcement and independent shareholders' approval requirements. Accordingly, the Company will seek Independent Shareholders' approval at the EGM by way of poll for the Agreement and the transactions contemplated therein.

A Circular containing, amongst other things, further details of the Agreement, together with a letter of advice from the independent board committee and a letter of recommendation from the independent financial adviser to the independent board committee and the Independent Shareholders in respect of the Agreement, and the notice of the EGM, is expected to be despatched to the Shareholders on or before 8 June 2011.

PROFIT WARNING

Reference is also made to the Company's profit warning announcement made on 19 April 2011. In addition to the expected loss for the year ended 31 March 2011 (mainly attributable to the net realized and unrealized losses on investments held for trading) mentioned in the profit warning announcement, the Group expects to also record in that period the estimated loss of approximately HK\$76.8 million in respect of the Sale Shares.

Separately, on 5 May 2011, Ambition Union Limited received an amount of HK\$5,974,276, being the final dividends for the year ended 31 December 2010 declared by Liu's Holdings in respect of the Sale Shares. Such final dividends are expected to be recognized as income of the Group during the year ending 31 March 2012.

The information on expected loss contained in this announcement as well as the profit warning announcement is only based on a preliminary review of the management accounts of the Group and information currently available, which has not been confirmed nor audited by the Company's auditor. The results of the Group for the year ended 31 March 2011 have not yet been finalized and are subject to further adjustments if required.

Shareholders of the Company and potential investors are advised to (a) read carefully the results announcement for the year ended 31 March 2011 of the Group, which is expected to be published in late June 2011, and (b) exercise caution when dealing in the Shares of the Company.

BACKGROUND

Pursuant to the Share Purchase Agreement entered into amongst Mr. L M Liu, Mrs. Liu, Mr. A Liu and Ambition Union Limited on 8 December 2010, Mr. L M Liu and Mrs. Liu agreed, amongst other things, (a) to sell and transfer all their respective beneficial rights, interests, entitlements, claims and undeclared dividends in the Sale Shares to Ambition Union Limited, and (b) to hold on trust the legal title of the Sale Shares for Ambition Union Limited pending registration of Ambition Union Limited as shareholder of the Sale Shares in the register of members of Liu's Holdings.

Reference is also made to the Earlier Announcement. Following that Earlier Announcement, the Company (through its authorised representatives) discussed the latest developments as well as the Proposals with Mr. L M Liu and Mrs. Liu. After much consideration and deliberation, the Company agreed upon the terms of the Agreement with Mr. L M Liu, Mrs. Liu and Mr. A Liu.

In addition, on 5 May 2011, Ambition Union Limited received an amount of HK\$5,974,276, being the final dividends for the year ended 31 December 2010 declared by Liu's Holdings in respect of the Sale Shares.

As far as the Directors are aware, as at the date of this announcement, Liu's Holdings holds an approximate 45.33% interest in LCH Investment, and LCH Investment in turn holds an approximate 48.52% interest in Chong Hing Bank. Both LCH Investment and Chong Hing Bank are listed on the main board of the Stock Exchange.

THE AGREEMENT

Set out below are the principal terms of the Agreement:

Date:

17 May 2011 (after trading hours)

Parties:

- (1) Mr. L M Liu;
- (2) Mrs. Liu;
- (3) Mr. A Liu;
- (4) Ambition Union Limited, a wholly-owned subsidiary of the Company.

Beneficial interests in Sale Shares to be disposed

Pursuant to the Agreement, Ambition Union Limited has conditionally agreed:-

- (a) to sell and transfer all its beneficial rights, interests, entitlements, claims and undeclared dividends in 150,540 of the Sale Shares to Mr. L M Liu and Mrs. Liu for a consideration of HK\$364,736,549.20. Such consideration is the same price offered in Liu's Holdings' Offer less 0.1% stamp duty; and
- (b) to sell and transfer all its beneficial rights, interests, entitlements, claims and undeclared dividends in 25,174 of the Sale Shares to Mr. L M Liu and Mrs. Liu for a consideration of HK\$60,992,944.72. Such consideration is calculated using the same price per share offered in Liu's Holdings' Offer less 0.1% stamp duty.

Pursuant to the Share Purchase Agreement, Ambition Union Limited paid a total price of HK\$502,542,037.50 when it acquired the beneficial interests in the Sale Shares.

After Completion, both beneficial and legal interests in the Sale Shares shall become absolutely vested in Mr. L M Liu and Mrs. Liu, and the parties to the Agreement shall have no cause for redress or claim against one another under the Share Purchase Agreement, save and except any antecedent breach.

Consideration

Pursuant to the Agreement, the aggregate consideration of HK\$425,729,493.92 shall be paid by way of a cashier order (or such banking instrument as Ambition Union Limited shall agree in writing) by Mr. L M Liu and Mrs. Liu to Ambition Union Limited upon Completion.

The Company intends to apply the sale proceeds to other investment opportunities in the financial services sector, including for example, expansion into the fund management business as outlined in the Company's announcement dated 3 March 2011.

Basis of the consideration

The consideration was agreed amongst Ambition Union Limited, Mr. L M Liu and Mrs. Liu after arm's length negotiations by reference to (1) the price offered in Liu's Holdings' Offer, (2) the latest market value of LCH Investment, (3) the illiquid nature of shareholding interests in Liu's Holdings (which is an unlisted private holding company), and (4) the future prospects of LCH Investment and Chong Hing Bank in the scenario where the Company is not in a position to assert control, management and/or influence on these companies.

Conditions Precedent

Completion of the sale and purchase of the Sale Shares under the Agreement shall be conditional on the following:

- (i) The passing by the Independent Shareholders at a duly convened Shareholders' meeting a resolution to approve the transaction contemplated in the Agreement; and
- (ii) All required consents or approval of and filings with any relevant governmental authorities, regulatory bodies and/or other relevant third parties (if any), having been received or made.

In the event that the Conditions are not, or are unable, to be fulfilled within 3 calendar months from the date of the Agreement, any of the parties thereto shall have the right to terminate the Agreement without cause and in such event, each party shall be absolutely discharged from all obligations under the Agreement.

Completion

Completion shall take place on the third working day after the fulfilment of the Conditions (or any other time as the parties to the Agreement may agree) before 5 p.m. in Hong Kong.

LEGAL ADVICE OBTAINED BY THE COMPANY

As mentioned in the Earlier Announcement, the Company sought legal advice and received a legal opinion, a summary of which is set out below:-

- (1) The Deed contains certain provisions governing the transfer of shares in Liu's Holdings by its shareholders, which set out certain procedures to be followed when a shareholder wishes to transfer his or her shares in Liu's Holdings. The intending transferor has to invite other shareholders to consider purchasing his/her shares at a price with reference to the average trading price quoted on the Stock Exchange.
- (2) In the Articles of Association, there are provisions allowing the board to refuse registration of the incoming shareholders in Liu's Holdings' records as shareholders. Any person who has acquired interests of the shares from an existing shareholder shall not be able to compel Liu's Holdings to register his/her interests as shareholder in Liu's Holdings' records.
- (3) Looking at the provisions in the Deed and the Articles of Association in their aggregate, the Deed provides the shareholders of Liu's Holdings a pre-emption right to purchase the shares from that shareholder who wants to sell his/her shares. The parties to the Deed may have the right to challenge the enforceability of this provision to the court on the ground that effectively such restriction on transferability of the shares may give rise to perpetuity.
- (4) As in all litigation, no one can predict an absolute outcome of the proceeding. In this case, legal counsel does not recommend the Company to apply to court to set aside that provision in the Deed as the court may say that the Deed does not violate the general principle against perpetuity as there is a pre-emption right and mechanism available to shareholders who want to transfer their shares.
- (5) The Company has no locus standi to commence legal proceedings for the purpose of challenging the provisions in the Deed and the Articles of Association as the Company is not party to the Deed and is not a shareholder registered in Liu's Holdings' records. The legal action, if any, shall have to be commenced in the name of Mr. L M Liu and Mrs. Liu.
- (6) Litigation costs are difficult to assess. Hong Kong is notorious for the high costs in litigation. There are a number of factors governing legal costs, including the type of advocates the Company prefers. Generally speaking, the losing party shall bear the costs of the winner. According to legal counsel's experience, Hong Kong courts are very busy, and a litigation may last for years and the losing party can always have a right to appeal to the Court of Appeal and in some cases to the Court of Final Appeal.

INFORMATION ON THE GROUP AND REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the trading of securities, provision of finance, insurance brokerage as well as investment holding.

The Company has always intended for the acquisition of the 23.43% Beneficial Interests to be on a friendly and co-operative basis. The Company has also been open to further increasing its direct and/or indirect ownership in Liu's Holdings, LCH Investment and/or Chong Hing Bank as and when opportunity arises. This is so that, amongst other things, the Company has a shareholding which is significant enough to put it in a position to help the performance of these companies, thereby benefiting all their shareholders and investors. After completion of the Share Purchase Agreement, the Company (through its authorized representative) held discussions with some of the Remaining Shareholders to potentially acquire their interests in Liu's Holdings.

However, despite the Company's good intentions, it is clear from Liu's Holdings' Offer that one or more of the Remaining Shareholders did not look favourably upon the Company's acquisition of the 23.43% Beneficial Interests. Given the Remaining Shareholders are all members of the Liu family (or their estates), the Directors believe that the attitude held by that one or more Remaining Shareholders also affected the other Remaining Shareholders. This effectively limited the ability of the Company to accumulate additional stakes in Liu's Holdings (or to do so at a reasonable and acceptable price) and to carry out its original intentions.

The many considerations taken into account by the Board when considering the Agreement include:-

- (1) the 23.43% Beneficial Interests in Liu's Holdings, in and of itself, is of limited strategic value to the Company as the minority stake does not give the Company the ability to control, manage and/or assert influence over Liu's Holdings, LCH Investment and/or Chong Hing Bank. The ability of the Company as a minority to help the performance of these companies is also limited;
- (2) any attempt by the Company to further accumulate stakes in, and/or to provide management support and other assistances to, Liu's Holdings, LCH Investment and/or Chong Hing Bank could potentially be seen as hostile by one or more of the Remaining Shareholders, and could result in conflicts and arguments amongst the Company and those one or more Remaining Shareholders. Not only would this be against the Company's intention to do the transaction on a friendly and co-operative basis. Furthermore, the on-going involvement by the Company could potentially fracture the ownership and management of Liu's Holdings, LCH Investment and/or Chong Hing Bank, and may also affect their normal business operations. The interests of the Company (as well as other direct and/or indirect stakeholders in these companies) could as a result be materially and adversely affected;
- (3) the illiquid nature of shareholding interests in Liu's Holdings, which is an unlisted private holding company;

- (4) the above-mentioned legal opinion, including legal counsel's recommendation that the Company should not apply to court in an attempt to set aside provisions in the Deed. The Board does not consider it to be in the best interest of the Company and its Shareholders for the Company to engage in protracted legal proceedings in order to obtain legal title to the Sale Shares, where the costs are potentially very high and the outcome unpredictable; and
- (5) the Agreement allows the Company to free up cash for other investment opportunities in the financial services sector, including for example, expansion into the fund management business as outlined in the Company's announcement dated 3 March 2011.

On the basis of the above, the Board of Directors believe that the terms of Agreement and the transactions contemplated therein are fair and reasonable and in the interests of Shareholders as a whole. Pursuant to the articles of association of the Company, Mr. A Liu and Mr. Winston Liu are not allowed to and did not vote at the Board meeting due to their material interests.

INFORMATION ON MR. L M LIU

Mr. L M Liu is the legal owner of 149,091 shares in Liu's Holdings. He and Mrs. Liu together are also the legal owner of another 26,623 shares in Liu's Holdings. He is Honorary Chairman of both LCH Investment and Chong Hing Bank. Mr. L M Liu is also the father of Mr. A Liu.

INFORMATION ON MRS. LIU

Mrs. Liu, together with Mr. L M Liu, are the legal owner of 26,623 shares in Liu's Holdings. Mrs. Liu is the mother of Mr. A Liu.

INFORMATION ON MR. A LIU

Mr. A Liu is the lawful son of Mr. L M Liu and Mrs. Liu. He is a non-executive Director and substantial Shareholder of the Company. As at the date of this announcement, Mr. A Liu holds 830,678,634 Shares (approximately 17.62% of total issued share capital of the Company).

INFORMATION ON LIU'S HOLDINGS

Liu's Holdings is an investment holding company and is mandated to hold the shares, stocks and securities in LCH Investment and to receive and distribute dividends from time to time declared by LCH Investment. As of the date of this announcement, Liu's Holdings holds an approximate 45.33% interest in LCH Investment, and LCH Investment in turn holds an approximate 48.52% interest in Chong Hing Bank through its wholly-owned subsidiary Liu Chong Hing Estate Company, Limited. LCH Investment is engaged in property investment, property development, property management, banking and finance, trading and manufacturing and hotel operation. Chong Hing Bank's principle business is banking, and holds a banking licence issued by the Hong Kong Monetary Authority and is subject to its regulations.

Based on the latest audited accounts of Liu's Holdings as at and for the year ended 31 December 2010, the value of the total assets and net assets of Liu's Holdings as at 31 December 2010 were approximately HK\$3.94 million and HK\$3.92 million, respectively. The Directors understand that Liu's Holdings has been accounting for its interest in LCH Investment as an investment at cost, and has not been adopting the equity method of accounting.

Based on the latest published audited accounts of LCH Investment as at and for the year ended 31 December 2010, the value of the total assets and net assets (excluding minority interests) of LCH Investment as at 31 December 2010 were approximately HK\$11.66 billion and HK\$7.06 billion, respectively.

Based on the latest published audited accounts of Chong Hing Bank as at and for the year ended 31 December 2010, the value of the total assets and net assets of Chong Hing Bank as at 31 December 2010 were approximately HK\$74.29 billion and HK\$6.58 billion, respectively.

Further financial information of Liu's Holdings, LCH Investment and Chong Hing Bank is set out as below:

Liu's Holdings

	For the year ended 31 December	
	2009 <i>HK\$</i> (audited)	2010 <i>HK\$</i> (audited)
Turnover	22,308,000	34,320,000
Net profit before and after taxation	21,785,660	33,790,406

LCH Investment

	For the year ended 31 December	
	2009 <i>HK\$ '000</i> (audited)	2010 <i>HK\$ '000</i> (audited)
Turnover	293,602	337,995
Net profit before taxation	407,861	568,433
Net profit after taxation	350,566	502,893

Chong Hing Bank

	For the year ended	
	31 December	
	2009	2010
	HK\$'000	HK\$'000
	(audited)	(audited)
Net interest income	823,331	816,127
Net fee and commission income	263,629	240,174
Net profit before taxation	264,383	568,319
Net profit after taxation	231,748	476,162

FINANCIAL EFFECT OF THE DISPOSAL

Based on the existing information available to the Company, the Directors estimate that the loss expected to be recorded in the Group's consolidated financial statements in respect of the Sale Shares is approximately HK\$76.8 million. The estimated loss represents the difference between the aggregate consideration of approximately HK\$425.7 million and the investment cost of approximately HK\$502.5 million paid by the Group pursuant to the Share Purchase Agreement.

As mentioned above, on 5 May 2011, Ambition Union Limited received an amount of HK\$5,974,276, being the final dividends for the year ended 31 December 2010 declared by Liu's Holdings in respect of the Sale Shares. Such final dividends are expected to be recognized as income of the Group during the year ending 31 March 2012.

It should be noted that the aforementioned estimations are for illustrative purpose only and do not purport to represent how the financial position of the Group will be after the Disposal. Further information regarding the financial effect of the Disposal will be included in the Circular.

PROFIT WARNING

Reference is also made to the Company's profit warning announcement made on 19 April 2011. In addition to the expected loss for the year ended 31 March 2011 (mainly attributable to the net realized and unrealized losses on investments held for trading) mentioned in the profit warning announcement, the Group expects to also record in that period the estimated loss of approximately HK\$76.8 million in respect of the Sale Shares referred to above.

The information on expected loss contained in this announcement as well as the profit warning announcement is only based on a preliminary review of the management accounts of the Group and information currently available, which has not been confirmed nor audited by the Company's auditor. The results of the Group for the year ended 31 March 2011 have not yet been finalized and are subject to further adjustments if required.

Shareholders of the Company and potential investors are advised to (a) read carefully the results announcement for the year ended 31 March 2011 of the Group, which is expected to be published in late June 2011, and (b) exercise caution when dealing in the shares of the Company.

LISTING RULES IMPLICATION

As the applicable percentage ratios (as defined under the Listing Rules) for the Disposal are more than 25% but less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Mr. L M Liu and Mrs. Liu are parents of Mr. A Liu. Mr. Winston Liu is the son of Dr. Liu Lit Mo, *LLD, MBE, JP* (who is one of the shareholders of Liu's Holdings). Mr. Winston Liu is also a cousin of Mr. A Liu. Mr. A Liu is a non-executive Director and a substantial Shareholder of the Company, and Mr. Winston Liu is a non-executive Director of the Company. Mr. A Liu and Mr. Winston Liu are connected persons of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Disposal is therefore subject to the reporting, announcement and independent shareholders' approval requirements. Accordingly, the Company will seek Independent Shareholders' approval at the EGM by way of poll for the Agreement and the transactions contemplated therein.

GENERAL

The EGM will be held by the Company for the Independent Shareholders to consider, and if thought fit, passing the resolutions to approve, inter alia the Agreement and the transactions contemplated thereunder. Mr. A Liu, Mr. Winston Liu, Mr. L M Liu and Mrs. Liu (to the extent they hold any Shares) having a material interest in the Disposal and their respective associates will abstain from voting on the resolution in relation to the Agreement to be proposed at the EGM.

An independent board committee comprising all independent non-executive Directors will be established to advise the Independent Shareholders in respect of terms of the Agreement. The Company will appoint an independent financial adviser to advise the independent board committee and the Independent Shareholders in this regard.

A Circular containing, amongst other things, further details of the Agreement, together with a letter of advice from the independent board committee and a letter of recommendation from the independent financial adviser to the independent board committee and the Independent Shareholders in respect of the Agreement, and the notice of the EGM, is expected to be despatched to the Shareholders on or before 8 June 2011.

DEFINITIONS

Unless the context requires otherwise, terms used in this announcement shall have the following meanings:

“23.43% Beneficial Interests”	the beneficial interests in the Sale Shares acquired by Ambition Union Limited pursuant to the terms of the Share Purchase Agreement
“Agreement”	the Agreement entered into amongst Ambition Union Limited, Mr. L M Liu, Mrs. Liu and Mr. A Liu dated 17 May 2011
“Articles of Association”	the Articles of Association of Liu’s Holdings
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Chong Hing Bank”	Chong Hing Bank Limited. (Stock Code: 1111), a company incorporated in Hong Kong with limited liability and the shares of which are listed on main board of the Stock Exchange
“Circular”	the circular to be despatched by the Company in respect of the Disposal
“Company”	Freeman Financial Corporation Limited. (Stock code: 279), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on main board of the Stock Exchange
“Completion”	completion of the Disposal
“Conditions”	conditions precedent contained in the Agreement for the Completion
“Deed”	the deed entered into amongst the then shareholders of Liu’s Holdings dated 20 October 1972
“Director(s)”	the director(s) of the Company
“Disposal”	the sell and transfer of the beneficial interests in the Sales Shares pursuant to the Agreement
“Earlier Announcement”	the announcement made by the Company on 27 April 2011

“EGM”	the extraordinary general meeting of the Company to be convened to consider, and if thought fit, approve the Agreement and the transactions contemplated thereunder.
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Shareholders”	Shareholders other than Mr. A Liu, Mr. Winston Liu, Mr. L M Liu and Mrs. Liu and their respective associates
“LCH Investment”	Liu Chong Hing Investment Limited (Stock Code: 194), a company incorporated in Hong Kong with limited liability and the shares of which are listed on main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Liu’s Holdings”	Liu’s Holdings Limited, a company incorporated in Hong Kong with limited liability
“Liu’s Holdings’ Offer”	the offer by Liu’s Holdings as described in paragraph numbered 3 of the Earlier Announcement
“Mr. A Liu”	Mr. Andrew Liu
“Mr. L M Liu”	Mr. Liu Lit Man, <i>GBS, JP, FIBA</i>
“Mrs. Liu”	Mrs. Liu Heu Seu Chu Pearl
“Proposals”	the proposals as described under paragraphs numbered 3 and 4 of the Earlier Announcement
“Remaining Shareholders”	the shareholders of Liu’s Holdings other than Mr. L M Liu and Mrs. Liu
“Sale Shares”	175,714 shares in Liu’s Holdings, the beneficial interests of which were sold to Ambition Union Limited pursuant to the Share Purchase Agreement
“Share Purchase Agreement”	agreement dated 8 December 2010 entered into amongst Ambition Union Limited, Mr. A Liu, Mr. L M Liu and Mrs. Liu

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board of
FREEMAN FINANCIAL CORPORATION LIMITED
Hui Quincy Kwong Hei
Managing Director

Hong Kong, 17 May 2011

As at the date of this announcement, the Board comprises the following Directors:—

Executive Directors:

Dr. Yang Fan Shing, Andrew (*Chairman*)
Mr. Lo Kan Sun (*Managing Director*)
Mr. Hui Quincy Kwong Hei (*Managing Director*)
Ms. Au Shuk Yee, Sue
Mr. Scott Allen Phillips
Ms. Chow Mun Yee

Non-executive Directors:

Mr. Andrew Liu
Mr. Cheng Chi Ming, Brian
Mr. Liu Kam Fai, Winston

Independent non-executive Directors:

Mr. Gary Drew Douglas
Mr. Peter Temple Whitelam
Dr. Agustin V. Que
Mr. Yau Chung Hong