



FAR EAST HOTELS AND ENTERTAINMENT LIMITED

遠東酒店實業有限公司

(Incorporated in Hong Kong under the Companies Ordinance)

(Website: <http://www.tricor.com.hk/web/service/00037>)

(Stock Code: 0037)

SUPPLEMENT TO 2007 ANNUAL REPORT

ADDITIONAL INFORMATION ON POST BALANCE SHEET EVENT

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 1 June 2007, and the subsequent Order of the High Court of the Hong Kong Special Administrative Region (the “High Court”) granted on 20 July 2007, the Company effected a capital reduction which took effect on 20 July 2007 (the “Capital Reduction”). The paid-up capital on each of its issued ordinary shares of HK\$1.00 was cancelled to the extent of HK\$0.90 per share, and the nominal value of all of the ordinary shares of the Company, both issued and unissued, was reduced from HK\$1.00 per share to HK\$0.10 per share.

A total credit of HK\$439,958,407.50 arose as a result of the Capital Reduction. An amount of HK\$221,897,828 of the total credit was applied towards writing off the unconsolidated accumulated losses of the Company as at 31 March 2006, and HK\$100,000,000 was transferred to a special capital reserve. The remaining balance of HK\$118,060,579.50 was credited to the share premium account of the Company.

An undertaking was given to the High Court by the Company in connection with the Capital Reduction. Pursuant to the undertaking, an amount of HK\$100,000,000 arising from the Capital Reduction, and any reversal, on or after 1 April 2006, of the following provisions recorded in the books of account of the Company:

- (1) the HK\$11,419,494 impairment loss recognised in respect of the Company’s subsidiaries;
- (2) various provisions in the aggregate amount of HK\$131,025,752, against loans due from the Company’s subsidiaries;
- (3) the HK\$163,600,000 provision in respect of the Company’s investment in an associated company;
- (4) the HK\$3,500,000 provision for a deposit paid in respect of a proposed additional interest in a subsidiary; and
- (5) the HK\$1,200,000 provision in respect of long service awards/severance payments,

up to an aggregate amount of HK\$221,897,828, shall be credited to a special capital reserve in the accounting records of the Company.

While any debt of or claim against the Company as at 20 July 2007 (the effective date of the Capital Reduction) remains outstanding, and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realised profits and (for so long as the Company remains a listed company) shall be treated as an undistributable reserve pursuant to section 79C of the Hong Kong Companies Ordinance.

The undertaking is subject to the following provisos:

1. the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied or may be reduced by the aggregate of any increase in the Company's issued share capital or share premium account resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves after 20 July 2007; and
2. an amount of up to HK\$100,000,000 of the special capital reserve may be applied by the Company for the purpose of eliminating any loss sustained after 31 March 2006, provided that such loss is referable to an audited balance sheet of the Company as published from time to time, and provided further that if subsequent to the elimination, any of the Company's investments against which provision for impairment loss or diminution in value has been made shall be revalued in the accounting records of the Company in excess of the provision, or such investment shall be realised for a sum in excess of the amount of such provision, then a sum equal to the amount of the revaluation or the sum realised in excess of the amount of the provision, up to an aggregate amount of HK\$100,000,000, shall be re-credited to the special capital reserve.

At the same extraordinary general meeting held on 1 June 2007, the ordinary resolution to approve the adoption of a new share option scheme that comply with the Listing Rules was duly passed by the shareholders.

Details of the Capital Reduction and the share option scheme are set out in the Company's circular dated 4 May 2007.