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FAR EAST HOTELS AND ENTERTAINMENT LIMITED

(Incorporated in Hong Kong with limited liability)

CAPITAL REORGANISATION

The Board intends to put forward a proposal to the Shareholders for the Capital Reorganisation.

The Capital Reorganisation involves the adjustment of the nominal value of its shares by reducing the nominal value of all the issued and unissued shares from HK\$1.00 to HK\$0.10. On the assumption that no further Shares will be issued after the date of this announcement, and on the basis of 488,842,675 Shares in issue, a credit of HK\$439,958,407 will arise as a result of the Reduction of Capital. Of this credit, an amount of up to HK\$41,005,830 may be applied towards writing off part or all of the accumulated losses of the Company as at 31st March, 2002. The balance of the credit will be transferred to a special capital reserve account to be created by the Company, the application of which will be subject to such conditions as may be imposed by the High Court.

It is further proposed that conditional upon such reduction of capital becoming effective, the authorised capital of the Company will immediately be restored to the original amount of HK\$750,000,000 by the creation of 6,750,000,000 ordinary shares of HK\$0.10 each.

The proposed Reduction of Capital and the Increase in Authorised Capital are conditional on, among other things, approval by the shareholders and confirmation by the High Court and Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares in issue on the effective date. The effective date of the Reduction of Capital and the Increase in Authorised Capital is not ascertainable at present, and further announcements on the effective date will be made in due course.

A circular containing details of, amongst other things, the proposed Reduction of Capital and Increase in Authorised Capital and a notice convening an extraordinary general meeting to approve the relevant matters will be despatched to the shareholders as soon as practicable.

Introduction

The Board is putting forward a proposal to its Shareholders for the Capital Reorganisation.

Reduction of Capital

As at the date of this announcement, the authorised capital of the Company is HK\$750,000,000 divided into 750,000,000 Shares, of which 488,842,675 Shares have been issued and are fully paid. The proposed Reduction of Capital will be effected by cancelling paid up capital to the extent of HK\$0.90 upon each of the 488,842,675 Shares in issue as at the date of this announcement and any further Shares which may be issued prior to the date on which the petition for the confirmation of the Reduction of Capital is heard by the High Court and by reducing the nominal value of all the ordinary shares in the capital of the Company from HK\$1.00 to HK\$0.10 each.

On the assumption that no further Shares will be issued after the date of this announcement, a credit of HK\$439,958,407 will arise as a result of the Reduction of Capital. Of this credit, up to an amount of HK\$41,005,830 may be applied towards writing-off part or all of the accumulated losses of the Company as at 31st March, 2002 as described below. The balance of the credit will be transferred to a special capital reserve account to be created by the Company, the application of which will be subject to such conditions as may be imposed by the High Court.

Increase in Authorised Capital

It is further proposed that conditional upon the Reduction of Capital becoming effective, the Authorised Capital of the Company will immediately be restored to the original amount of HK\$750,000,000 by the creation of an additional 6,750,000,000 New Shares.

Upon the Increase in Authorised Capital becoming effective and on the basis of 488,842,675 Shares in issue at the date of this announcement, the authorised capital of the Company will be HK\$750,000,000 divided into 7,500,000,000 New Shares, of which 488,842,675 New Shares will be in issue and credited as fully paid.

Conditions of the Reduction of Capital

The Reduction of Capital is conditional on the following:

1. the passing by the Shareholders of a special resolution to approve the Reduction of Capital and the Increase in Authorised Capital to be proposed at an extraordinary general meeting to be convened by the Company;
2. the confirmation of the Reduction of Capital by the High Court and the registration by the Registrar of Companies in Hong Kong of an office copy of the order of the High Court and the minute containing the particulars required by Section 61 of the Companies Ordinance; and

3. the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the New Shares in issue on the effective date.

Assuming that the above conditions are fulfilled, it is expected that the Reduction of Capital will become effective immediately following the registration of the order of the High Court and the minute containing the particulars required by Section 61 of the Companies Ordinance.

The effective date of the Reduction of Capital and the Increase in Authorised Capital is not ascertainable at present. An application will be made to the High Court in respect of the Reduction of Capital as soon as practicable after the approval of the Reduction in Capital at the Extraordinary General Meeting and further announcement(s) will be made informing the Shareholders of the expected effective date and, if necessary or appropriate, the progress and results of the application to the High Court.

Reasons for the Reduction of Capital

Since February, 2000, the Shares have been traded on the Stock Exchange at prices ranging from HK\$0.29 to HK\$0.94 per Share, which are below their nominal value of HK\$1.00 each. The closing price of the Shares on the Stock Exchange on the Latest Practicable Date was HK\$0.345 per Share.

Under the Companies Ordinance, a company may not issue shares at a discount to the nominal value of such shares unless, among other things, the issue is authorised by a resolution of the Shareholders and is sanctioned by the High Court. The Directors consider that such an exercise will be costly and time consuming, and that it would therefore be desirable to reduce the nominal value of the Shares so as to avoid the necessity for such an exercise to be undertaken each time the Company wishes to raise funds. The Directors believe that the Reduction of Capital will therefore give greater flexibility to the Company in pricing new issues of its New Shares when the opportunities arise in the future. However, no specific arrangements for issuing New Shares for the purpose of fund raising or acquisition of business or assets have been discussed or entered into with any party by the Company as at the Latest Practical Date.

The Company has unconsolidated accumulated losses as at 31st March, 2002, in the amount of HK\$41,005,830. The losses are principally attributable to the decline in revenue from the Company's trading subsidiaries, which revenue has been insufficient to cover the Company's normal trading expenses. In addition, the Company has incurred losses arising out of investments in respect of certain former subsidiaries that have ceased trading. Of the credit of HK\$439,958,407 arising on the Reduction of Capital, the Directors may elect to apply up to an amount of HK\$41,005,830 towards writing-off all or part of the accumulated losses of the company as referred to above.

Whether or not up to an amount of HK\$41,005,830 from the credit of HK\$439,958,407 arising from the Reduction of Capital is ultimately applied towards writing-off the accumulated losses of the Company to 31st March, 2002 will principally depend upon the view of the Directors as to the prospects of the Company being able to reduce its accumulated losses through returns on investments in its subsidiaries over the near to mid-term. If, at the time of the Company's application to the High Court, the Directors take the view that the Company will be able to reduce or reverse its accumulated losses in the near to mid-term, it is not proposed that any of the credit arising on the Reduction of Capital will be applied towards writing-off such accumulated losses.

The Hearing of the Summons for Directions of the Company and the Hearing of the Petition for the confirmation of the Reduction of Capital is unlikely to take place prior to October, 2002.

EFFECT OF THE REDUCTION OF CAPITAL AND INCREASE IN AUTHORISED CAPITAL ON THE COMPANY'S SHARE OPTION SCHEME

Following the completion of the Reduction of Capital and Increase in Authorised Capital, such alterations, if any, shall be made to any options issued pursuant to the terms of the share option scheme of the Company adopted on 22nd September, 1995 as the auditors of the Company shall certify in writing to be fair and reasonable in accordance with the provisions of the share option scheme.

IMPACT OF THE REDUCTION OF CAPITAL

Implementation of the Reduction of Capital will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders, except for the payment of the related expenses. The Board believes that the Reduction of Capital and the Increase in Authorised Capital will not have any adverse effect on the financial position of the Company and its subsidiaries.

FREE EXCHANGE OF CERTIFICATES FOR NEW SHARES AND TRADING ARRANGEMENTS

Shareholders may submit existing certificates for the Shares to the registrar of the Company, Standard Registrars Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for exchange, at the expense of the Company, up to four weeks from the effective date for certificates for the New Shares.

Details of such free exchange of share certificates, the relevant trading arrangement and timetable will be announced as soon as the effective date of the Reduction of Capital is ascertainable.

GENERAL

A circular containing details of the Reduction of Capital, the Increase in Authorised Capital as well as arrangements for free exchange of share certificates upon the Reduction of Capital becoming effective will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

“Board”	the board of directors of the Company;
“Capital Reorganisation”	the Reduction of Capital and Increase in Authorised Capital;
“Companies Ordinance”	the Companies Ordinance (Cap 32) of the Laws of Hong Kong;
“Company”	Far East Hotels and Entertainment Limited;
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at the Penthouse, Far East Consortium Building, 121 Des Voeux Road, Central Hong Kong SAR on Friday 23rd August, 2002 at 3:20 p.m. (or so soon thereafter as the annual general meeting and the extraordinary general meeting convened for the same place and date at 3:00 and 3:10 p.m. respectively shall have concluded or adjourn);
“High Court”	the High Court of the HKSAR;
“HKSAR”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Increase in Share Capital”	the restoration of the authorised share capital of the Company to HK\$750,000,000 by the creation of an additional 6,750,000,000 New Shares;
“Latest Practicable Date”	19th July, 2002, being the latest practicable date prior to the printing of this announcement for ascertaining certain information in this announcement;
“New Shares”	shares of par value HK\$0.10 each in the issued and unissued share capital of the Company on the Reduction of Capital becoming effective;
“Reduction of Capital”	the reduction of the capital of the Company as set out in this announcement;

“Shareholders” the holders of Shares from time to time; and

“Shares” shares of par value HK\$1.00 each in the authorised share capital of the Company.

By Order of the Board
Far East Hotels & Entertainment Limited
Derek Chiu
Managing Director and Chief Executive

Hong Kong, 19th July, 2002

Please also refer to the published version of this announcement in The Standard.