

# THE PALACE AMUSEMENT COMPANY (1921) LIMITED 1996

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## Notes to the Financial Statements

30 June 1996

### 1. Principal Activities and Related Party Transactions

The company is incorporated in Jamaica and is involved in the entertainment industry, income being earned from box office receipts, rental of theatres and films and the sale of concessions.

Films are rented from United International Pictures, which represents Universal Pictures, Paramount Pictures, Metro Goldwyn Meyer and Disney; Independent Film Distributors of Trinidad; and Russgram Investments Limited, the company's parent company, which represents Warner Bros, 20th Century Fox in the United States, Goldmine Productions and D.S. Pictures, both of Trinidad. Film rental paid to the parent company for the year was \$28,335,374 (1995-\$18,630,247).

## 2. Significant Accounting Policies

### (a) Consolidation

The group financial statements incorporate the financial statements of the company and its subsidiaries, all of which are cinema operators.

The subsidiaries consolidated and percentage ownership are as follows:

Tropical Cinema Company Limited	90.10%
Harbour View Cinema Company Limited	77.50%
Cinema Company of Jamaica Limited	100.00%

Group turnover comprises box office receipts net of general consumption tax, theatre confectionery sales, rent receivable, miscellaneous commissions and income from third parties.

### (b) Fixed assets

Fixed assets are stated at cost or subsequent valuation.

Depreciation is provided on the straight line basis, using expected useful lives of 40 years for buildings, 10 years for plant, leasehold buildings, equipment and fixtures and 5 years for motor vehicles.

### (c) Inventories

Inventories are stated at the lower of cost or realisable value.

**(d) Leases**

In accordance with accounting standard C28, which became effective for accounting periods commencing on or after April 1,1993, assets which are financed by leasing agreements that give rights approximating to ownership are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to operating profit. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the annuity method. All other leases, including leases in existence prior to April 1,1993, are accounted for as operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

**(e)** These financial statements are expressed in Jamaican dollars.

3. Trading (Loss)/Profit

Trading (loss)/profit is arrived at after charging/(crediting) the following:

	1996	1995
	\$'000	\$'000
Depreciation	5,511	4,007
Auditors' remuneration:		
Current year	1,315	1,019
Prior year	40	70
Directors' emoluments:		
Fees	267	237
Management remuneration	4,181	3,225
Interest expense	3,744	3,566
Interest income	( 345)	( 608)
Investment income	( 32)	( 161)
Gain on exchange	(2,290)	(1,847)

4. Exceptional Item

This represented the cost of major renovations of a cinema owned by a subsidiary.

5. Taxation

(a) Taxation charged is based on the group's results of operations for the year, adjusted for taxation purposes, and comprises:

	1996	1995
	\$'000	\$'000
Income tax 33 1/3 %	-	715
Prior year (over)/under provision	( 30)	120
	<u>( 30)</u>	<u>835</u>

There is no tax charge for the current year due to losses incurred.

The tax charge for 1995 was disproportionate to the profit before taxation due primarily to provision for repairs of approximately S2,950,000 which was not allowable for tax until the expenditure was actually incurred, and losses realised by certain subsidiaries.

(b) Subject to agreement with the Commissioner of Income Tax, losses available for offset against future profits of group companies amount to approximately \$10,000,000 (1995-\$553,611) and may be carried forward indefinitely.

6. Dividend

	1996	1995
	\$'000	\$'000
Paid, Nil (1995 - \$0.25 gross)	<u>-</u>	<u>359</u>

7. (Loss)/earnings Per Stock Unit

The calculation of (loss)/earnings per stock unit is based on net (loss)/profit attributable to stockholders and 1,437,028 ordinary stock units in issue at the end of both years.

8. Fixed Assets

The Group							
	Freehold Land \$'000	Theatre Building \$'000	Other Building \$'000	Leasehold Building \$'000	Equipment, Fixtures & Motor Vehicle \$'000	Capital Work-in- Progress \$'000	Total \$'000
Cost or Valuation -							
At 1 July 1995	2,713	2,126	3,109	4,178	34,015	500	46,641
Additions	-	598	216	-	14,261	76	15,150
Revaluations	1,158	-	31,366	-	-	-	32,524
At 30 June 1996	3,871	2,724	34,690	4,178	48,276	576	94,315
Depreciation -							
At 1 July 1995	-	254	81	1,442	10,465	-	12,242
Charge for the year	-	63	28	418	5,002	-	5,511
Revaluation adjustments	-	-	16,390	-	-	-	16,390
At 30 June 1996	-	317	16,499	1860	15,467	-	34,143
Net Book Value -							
30 June 1996	3,871	2,407	18,191	2,318	32,809	576	80,172
30 June 1995	2,713	1,872	3,028	2,736	23,550	500	34,399

The Company							
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Buildings \$'000	Equipment Fixtures & Motor Vehicles \$'000	Capital Work-in- Progress \$'000	Total \$'000
Cost or Valuation -							
At 1 July 1996	1,679	452	3,109	4,178	17,043	500	26,961
Additions	-	-	215	-	12,173	76	12,464
Revaluation adjustments	1,158	-	31,366	-	-	-	32,624

At 30 June 1996	<u>2,837</u>	<u>452</u>	<u>34,690</u>	<u>4,178</u>	<u>29,216</u>	<u>576</u>	<u>71,949</u>
Depreciation -							
At 1 July 1996	-	34	81	1,442	6,596	-	8,153
Charge for the year	-	11	28	418	3,122	-	3,579
Revaluation adjustment	-	-	16,390	-	-	-	16,390
At 30 June 1996	<u>-</u>	<u>45</u>	<u>16,499</u>	<u>1,860</u>	<u>9,718</u>	<u>-</u>	<u>28,122</u>
Net Book Value -							
30 June 1996	<u>2,837</u>	<u>407</u>	<u>18,191</u>	<u>2,318</u>	<u>19,498</u>	<u>576</u>	<u>43,827</u>
30 June 1995	<u>1,679</u>	<u>418</u>	<u>3,028</u>	<u>2,736</u>	<u>10,447</u>	<u>500</u>	<u>18,808</u>

The group's fixed assets have been professionally revalued as follows:

- (a) On 30 June 1996 the freehold land and building of the South Odeon Shopping Centre was revalued to market value and depreciated replacement cost, respectively, based on an appraisal report dated July 1991 by Orville Grey and Associates (Real Estate Appraisers).
- (b) On 30 June 1984 the freehold land of Harbour View Cinema Company Limited was revalued by Orville Grey and Associates.
- (c) Other freehold land and buildings are based on independent appraisals done in 1972.

Additions subsequent to revaluations are stated at cost.

The increments arising from the revaluations of fixed assets have been credited to capital reserve (note 12).

#### 9. Investments

	The Group		The Company	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
At cost -				
Quoted (market value - \$787,954; 1995 - \$ 1,796,966)	183	183	173	173
Investment in Carib Pipe Limited - Ordinary shares	87	87	72	72
Mortgages and other unquoted	30	30	25	25
	<u>300</u>	<u>300</u>	<u>270</u>	<u>270</u>

10. Subsidiary Companies

	1996 \$'000	1995 \$'000
Shares at cost	485	485
Due from subsidiaries	9,773	3,709
Loans	( 73)	( 73)
	<u>10,185</u>	<u>4,121</u>

11. Share Capital

	1996 \$'000	1995 \$'000
Authorised- 1,500,000 shares of \$1 each	<u>1,500</u>	<u>1,500</u>
Issued and fully paid - 1,437,028 stock units of \$1 each	<u>1,437</u>	<u>1,437</u>

12. Capital Reserve

	<u>The Group</u>		<u>The Company</u>	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
At beginning of year -				
Unrealised surplus on revaluation of fixed assets	2,231	2,231	1,373	1,373
Realised capital gains	197	197	-	-
Reserve on consolidation	<u>389</u>	<u>389</u>	<u>-</u>	<u>-</u>
	<u>2,817</u>	<u>2,817</u>	<u>1,373</u>	<u>1,373</u>
Movement during the year -				
Unrealised surplus on revaluation of fixed assets	<u>16,134</u>	<u>-</u>	<u>16,134</u>	<u>-</u>
	<u>18,951</u>	<u>2,817</u>	<u>17,507</u>	<u>1,373</u>
Comprised of -				

Unrealised surplus on revaluation of fixed assets	18,365	2,231	17,507	1,373
Realised capital gains	197	197	-	-
Reserve on consolidation	<u>389</u>	<u>389</u>	<u>-</u>	<u>-</u>
	<u>18,951</u>	<u>2,817</u>	<u>17,507</u>	<u>1,373</u>

### 13. Long Term Liabilities

	The Group & The Company	
	1996	1995
	\$'000	\$'000
(a) Jamaica General Insurance - 30% loan	1,000	1,000
(b) Jamaica Mutual Life Assurance Society - 30% Mortgage loan	4,797	4,867
(c) Citizens Bank Limited - 30% loan	<u>3,611</u>	<u>-</u>
	9,408	5,867
Less: Current portion	<u>2,737</u>	<u>1,068</u>
	<u>6,671</u>	<u>4,799</u>

- (a) The loan by Jamaica General Insurance is repayable by August 1996 and is secured by the unconditional personal guarantee of a director.
- (b) The mortgage by Jamaica Mutual Life Assurance Society is secured by a charge on certain fixed assets and the life insurance policy of a director.
- (c) The loan by Citizens Bank Limited is repayable by August 1998 and is secured by the unconditional personal guarantee of a director.



14. Shareholder's Loan

There are no specific repayment terms for this loan and interest is charged based on current bank rates relating to short term deposits. The loan is not due within the next twelve months.

15. Finance Leases

The group, in the ordinary course of business, has entered into finance lease arrangements for equipment and motor vehicles. Future payments under the lease commitments are as follows:

	<u>The Group</u>		<u>The Company</u>	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
In the year ending June 30, 1997	10,219	4,289	6,412	481
1998	8,094	4,223	6,190	415
1999	<u>1,754</u>	<u>2,067</u>	<u>1,754</u>	<u>163</u>
Total minimum lease payments	20,067	10,579	14,356	1,059
Less: Future finance charges	<u>(7,119)</u>	<u>(4,528)</u>	<u>(5,425)</u>	<u>(490)</u>
Present value of minimum lease payments	12,948	6,051	8,931	569
Less: Current portion	<u>(5,370)</u>	<u>(1,749)</u>	<u>(3,016)</u>	<u>(284)</u>
	<u>7,578</u>	<u>4,302</u>	<u>5,915</u>	<u>285</u>

**16. National Housing Trust**

Compulsory contributions made to 31 July 1979, which were charged to profit and loss account, amounted to \$74,565 (company - \$41,612) and are recoverable in the years 2001 - 2004.

**17. Pension Plan**

The company participates in a pension plan administered for The Palace Amusement Company (1921) Limited by Life of Jamaica Limited. Retirement benefits are based on the average annual earnings in the last three years to retirement and death benefits on members accumulated contribution. Based on the latest actuarial valuation of the plan as at 31 March 1992, the plan is adequately funded and contribution rates have been set at 5% of earnings for employees and 5 1/4% for employers.

Contributions charged in these financial statements amount to \$1,047,751 for the group and \$860,165 for the company (1995 - \$789,452 and \$722,187, respectively).

**18. Operating Lease Commitments**

Lease commitments at 30 June 1996 relating to rental of premises amounted to approximately \$7,700,000 and are scheduled for payment as follows:

		The Group and The Company \$
In the year ending 30 June	1997	2,200,000
	1998	1,700,000
	1999	1,270,000
	2000	1,270,000
	2001	1,260,000

#### **19. Subsequent Event**

On 20 September 1996, The Carib Cinema, which is owned and operated by The Cinema Company of Jamaica Limited, a wholly owned subsidiary, was destroyed by fire. In the opinion of the directors no loss, except loss of profits, will arise since adequate insurance cover was maintained.

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