

THE PALACE AMUSEMENT COMPANY (1921) LIMITED 1997

Notes to the Financial Statements

30 June 1997

1. PRINCIPAL ACTIVITIES AND RELATED PARTY TRANSACTIONS

The company and its subsidiaries are incorporated in Jamaica and is involved in the entertainment industry. Group turnover comprises box office receipts net of general consumption tax, theatre confectionery sales, rent receivable, miscellaneous commissions and income from third parties.

These financial statements are expressed in Jamaican dollars.

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 \$20,539,000 (1996 - \$28,335,000).

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	-	90.1%
Harbour View Cinema Company Limited	-	77.5%
Cinema Company of Jamaica Limited	-	100.0%

(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 and net 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 had 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) Investment Property

Investment property is stated at market value determined by an annual valuation and is not depreciated. Fluctuations in value arising from the annual revaluation are taken to the investment reserve.

3. **TRADING LOSS**

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

	1997	1996
	\$'000	\$'000
Depreciation	4,738	5,511
Auditors' remuneration:		
Current year	1,328	1,315
Prior year	50	40
Directors' emoluments:		
Fees	305	267
Management remuneration	8,020	4,181
Interest expense	5,611	3,744
Interest income	(2,705)	(345)
Investment income	(3)	(32)
Gain on exchange	<u>(1,218)</u>	<u>(2,290)</u>

4. **TAXATION**

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

	1997	1996
	\$'000	\$'000
Prior year over provision	<u>-</u>	<u>(30)</u>

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

(b) Subject to agreement with the Commissioner of Income Tax, losses available for offset against future profits of group companies amount to approximately \$39,000,000 (1996 - \$10,000,000) and may be carried forward indefinitely.

5. EXTRAORDINARY ITEMS	1997	1996
	\$'000	\$'000
Gain on disposal of Odeon Mandeville Cinema	23,795	-
Excess of insurance proceeds over net book value	<u>19,663</u>	<u>-</u>
	<u>43,458</u>	<u>-</u>

6. **EARNINGS/(LOSS) PER STOCK UNIT**

The earnings per stock unit calculations are based on the net profit/(loss) before and after extraordinary items (note 5) and 1,437,028 ordinary stock units in issue at the end of both years.

The Group

7. **FIXED ASSETS**

	Freehold Land	Theatre Buildings	Other Buildings	Leasehold Buildings	Equipment, Fixtures & Motor Vehicle	Capital Work-in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or Valuation -							
At 1 July 1996	3,871	2,724	34,690	4,178	48,276	576	94,315
Additions	-	1,974	-	-	1,282	110,849	114,105
Disposals	(115)	(1,696)	-	-	(8,270)	-	(10,081)
Transfers CWIP/ investment property	(1,224)	59,069	(33,507)	-	51,780	(110,849)	(34,731)
At 30 June 1997	<u>2,532</u>	<u>62,071</u>	<u>1,183</u>	<u>4,178</u>	<u>93,068</u>	<u>576</u>	<u>163,608</u>
Depreciation -							
At 1 July 1996	-	317	16,499	1,860	15,467	-	34,143
Charge for the year	-	73	28	418	4,219	-	4,738
Relieved on disposals/transfers	-	(139)	(16,390)	-	(3,401)	-	19,930
At 30 June 1996	<u>-</u>	<u>251</u>	<u>137</u>	<u>2,278</u>	<u>16,285</u>	<u>-</u>	<u>18,951</u>

Net Book Value -							
30 June 1997	<u>2,532</u>	<u>61,820</u>	<u>1,046</u>	<u>1,900</u>	<u>76,783</u>	<u>576</u>	<u>144,657</u>
30 June 1996	<u>3,871</u>	<u>2,407</u>	<u>18,191</u>	<u>2,318</u>	<u>32,809</u>	<u>576</u>	<u>60,172</u>

The Company

	Freehold Land	Theatre Buildings	Other Buildings	Leasehold Buildings	Equipment, Fixtures & Motor Vehicles	Capital Work-in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or Valuation -							
At 1 July 1996	2,837	452	34,690	4,178	29,217	576	71,950
Additions	-	-	-	-	1,239	-	1,239
Disposals	(115)	(71)	-	-	(160)	-	(346)
Transfers to investment properly	(1,224)	-	(33,507)	-	-	-	(34,731)
At 30 June 1997	<u>1,498</u>	<u>381</u>	<u>1,183</u>	<u>4,178</u>	<u>30,296</u>	<u>576</u>	<u>38,112</u>
Depreciation -							
At 1 July 1996	-	45	16,499	1,860	9,719	-	28,123
Charge for the year	-	12	28	418	3,138	-	3,596
Relieved on disposals/transfers	-	(9)	(16,390)	-	(132)	-	(16,531)
At 30 June 1997	<u>-</u>	<u>48</u>	<u>1,183</u>	<u>2,278</u>	<u>12,725</u>	<u>-</u>	<u>15,188</u>
Net Book Value -							
30 June 1997	<u>1,498</u>	<u>333</u>	<u>1,046</u>	<u>1,900</u>	<u>17,571</u>	<u>576</u>	<u>22,924</u>
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>

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

- (i) On 30 June 1984 the freehold land of Harbour View Cinema Company Limited was revalued by Orville Grey and Associates.

(ii) Other freehold land and buildings are based on independent appraisals done in 1972

Additions subsequent to revaluations are stated at cost.

(b) During the year, interest cost of \$1,815,000 (1996-Nil) relating to capital work in progress was capitalised.

8. **INVESTMENT PROPERTY**

The investment property was valued at current market value as at 16 February 1997 by David Delisser & Associates Real Estate Appraisers.

9. **OTHER INVESTMENTS**

	<u>The Group</u>		<u>The Company</u>	
	<u>1997</u> \$'000	<u>1996</u> \$'000	<u>1997</u> \$'000	<u>1996</u> \$'000
At cost-				
Subsidiaries				
Cinema Company of Jamaica 135,800 ordinary shares of \$2.00 each	-	-	272	272
Harbour View Cinema Company Limited 34,303 ordinary shares of \$2.00 each	-	-	68	68
Tropical Cinema Company Limited 72,342 ordinary shares of \$2.00 each	-	-	145	145
Quoted (market value - \$924,000: 1996 - \$787,954)	183	183	173	173
Investment in Carib Pipe Limited - ordinary shares	87	87	72	72

Mortgages and other unquoted	<u>30</u>	<u>30</u>	<u>25</u>	<u>25</u>
	300	300	755	755

10. **LONG TERM RECEIVABLE**

This represents General Consumption Tax incurred on fixed assets additions, which is recoverable over twenty-four months.

11. **SUBSIDIARY COMPANIES**

	1997	1996
	\$'000	\$'000
Due from subsidiaries	93,724	9,773
Loans	<u>(73)</u>	<u>(73)</u>
	<u>93,651</u>	<u>9,700</u>

12. **SHORT TERM LOANS**

These represent loans by Jamaica General Insurance Company Limited at 30% interest rate and are repayable by August 1997. These loans are secured by an unconditional personal guarantee from the managing director.

13. **SHARE CAPITAL**

	1997	1996
	\$'000	\$'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>

14. **CAPITAL RESERVE**

	<u>The Group</u>		<u>The Company</u>	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
At beginning of year				
Unrealised surplus on revaluation of fixed assets	18,365	2,231	17,507	1,373
Realised capital gains	197	197	-	-
Reserve on consolidation	389	389	-	-
	<u>18,951</u>	<u>2,817</u>	<u>17,507</u>	<u>1,373</u>
Movement during the year -				
Transfer to investment reserve (Note 15)	(16,134)	-	(16,134)	-
Gain on the disposal of fixed assets	40,671	-	23,795	-
Unrealised surplus on revaluation of fixed assets	-	16,134	-	16,134
	<u>43,488</u>	<u>18,951</u>	<u>25,168</u>	<u>17,507</u>
Comprised of -				
Unrealised surplus on revaluation of fixed assets	2,231	18,365	1,373	17,507
Realised capital gains	40,868	197	23,795	-
Reserve on consolidation	389	389	-	-
	<u>43,488</u>	<u>18,951</u>	<u>25,168</u>	<u>17,507</u>

15. **INVESTMENT RESERVE**

	<u>The Group & The Company</u>	
	1997 \$'000	1996 \$'000
Unrealised reserves		
Transfer from capital reserve (Note 14)	16,134	-
Surplus on revaluation of investment property (Note 2 (e))	98,204	-
	<u>114,338</u>	<u>-</u>

16. **LONG TERM LIABILITIES**

	The Group & The Company	
	1997	1996
	\$'000	\$'000
(a) Dehring, Bunting and Golding Limited - 26% loan	66,000	-
(b) Citizens Bank Limited 16% loan (US\$145,000)	5,085	3,611
Jamaica Mutual Life Assurance Society		
-30% Mortgage loan	-	<u>4,797</u>
	<u>71,085</u>	<u>8,408</u>
Less: Current portion	8,033	1,737
	<u>63,052</u>	<u>6,671</u>

- (a) The loan from Dehring, Bunting and Golding Limited is repayable by April 2002 and is secured by mortgages over the company's Investment Property and the Carib Cinema, and a charge over the fixed and floating assets of the company. This loan was used for the rebuilding and refurnishing of the Carib Cinema.
- (b) The loan from Citizens Bank Limited is repayable by July 1999 and is secured by the unconditional personal guarantee of the managing director.

18 **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>	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
In the year ending June 30,1998	8,230	18,313	6,326	12,602
1999	<u>1,801</u>	<u>1,754</u>	<u>1,801</u>	<u>1,754</u>
Total minimum lease payments	10,031	20,067	8,127	14,356
Less: Future finance charges	<u>(2,670)</u>	<u>(7,119)</u>	<u>(2,418)</u>	<u>(5,425)</u>
Present value of minimum lease payments	7,361	12,948	5,709	8,931
Less: Current portion	<u>(6,387)</u>	<u>(5,370)</u>	<u>(4,735)</u>	<u>(3,016)</u>
	<u>974</u>	<u>7,578</u>	<u>974</u>	<u>5,915</u>

18 **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.

19 **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.

20 **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 \$1,494,000 for the group and \$1,253,000 for the company (1996-\$1,047,751 and \$860,165, respectively.)

21. **OPERATING LEASE COMMITMENTS**

Lease commitments at 30 June 1997 relating to rental of premises amounted to approximately \$11,775,000 and are scheduled for payment as follows:

		The Group and The Company \$
In the year ending June 30,	1998	2,871,000
	1999	2,391,000
	2000	2,648,000
	2001	2,857,000
	2002	1,008,000
