

THE PALACE AMUSEMENT COMPANY (1921) LIMITED 1998

Notes to the Financial Statements

30 June 1998

1. Principal Activities and Related Party Transactions

The company and its subsidiaries are incorporated in Jamaica and are involved in the entertainment industry. Group turnover comprises box office receipts, theatre confectionery sales, rental income net of general consumption tax, miscellaneous commissions and income from third parties. The company is a 59% subsidiary of Russgram Investments Limited, which is also incorporated in Jamaica.

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 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 \$46,207,000 (1997 - \$20,539,000).

2. Significant Accounting Policies

(a) Accounting convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

(b) 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%

(c) Fixed assets

Fixed assets are stated at cost or subsequent valuation.

Depreciation is calculated 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.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the first-in-first-out basis.

(e) 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.

(f) 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.

(g) Other Investments

(i) Investments in affiliated companies and unquoted securities are stated at cost.

(ii) Quoted securities are stated at the lower of cost and market value

(h) Foreign currency translation

- (i) Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the balance sheet date.
- (ii) Transactions during the year are converted at the rates of exchange ruling at the dates of those transactions.
- (iii) Gains and losses arising from fluctuations in exchange rates are included in the profit and loss account.

3. Trading Loss

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

	1998	1997
	\$'000	\$'000
Depreciation	12,094	4,738
Auditors' remuneration:		
Current year	1,528	1,328
Prior year	5	50
Directors' emoluments:		
Fees	378	490
Management remuneration	5,016	4,772
Interest expense	21,656	5,611
Interest income	(929)	(2,705)
Investment income	(31)	(3)
Gain on exchange	(941)	(1,218)

4. Taxation

There is no tax charge for the current and prior year due to losses sustained.

Subject to agreement with the Commissioner of Income Tax, losses available for off-set against future profits amount to approximately \$50,545,000 for the group and \$18,000,000 for the company, (1997 - \$36,000,000 and \$8,857,000 respectively). These amounts may be carried forward indefinitely.

5. Extraordinary Items

	1998 \$'000	1997 \$'000
Gain on disposal of Odeon Mandeville Cinema	-	23,795
Excess of insurance proceeds over net book value	-	19,663
	-	43,458

6. (Loss)/Earnings Per Stock Unit

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

7. Fixed Assets

	The Group						Total
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Buildings \$'000	Equipment, Fixtures & Motor Vehicles \$'000	Capital Work-ln Progress \$'000	\$'000
Cost or Valuation -							
At 1 July 1997	2,532	62,071	1,183	4,178	93,068	576	163,608
Additions	-	12,655	-	-	4,381	-	17,036
At 30 June 1998	2,532	74,726	1,183	4,178	97,449	576	180,644
Depreciation -							
At 1 July 1997	-	251	137	2,278	16,285	-	18,951
Charge for the year	-	1,861	28	418	9,787	-	12,094
At 30 June 1998	-	2,112	165	2,696	26,072	-	31,045
Net Book Value							
30 June 1998	2,532	72,614	1,018	1,482	71,377	576	149,599
30 June 1997	2,532	61,820	1,046	1,900	76,783	576	144,657

	The Company						Total \$'000
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Buildings \$'000	Equipment, Fixtures & Motor Vehicles \$'000	Capital Work-in Progress \$'000	
Cost or Valuation -							
At 1 July 1997	1,498	381	1,183	4,178	30,296	576	38,112
Additions	-	-	-	-	1,307	-	1,307
At 30 June 1998	<u>1,498</u>	<u>381</u>	<u>1,183</u>	<u>4,178</u>	<u>31,603</u>	<u>576</u>	<u>39,419</u>
Depreciation -							
At 1 July 1997	-	48	137	2,278	12,725	-	15,188
Charge for the Year	-	9	28	418	3,224	-	3,679
At 30 June 1998	-	57	165	2,696	15,949	-	18,867
Net Book Value							
30 June 1998	<u>1,498</u>	<u>324</u>	<u>1,018</u>	<u>1,482</u>	<u>15,654</u>	<u>576</u>	<u>20,552</u>
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>

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

(i) The freehold land of Harbour View Cinema Company Limited was valued by Orville Grey and Associates, professional valuers, as at 30 June 1984.

(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 NIL (1997-\$1,815,000) relating to capital work in progress was capitalised during the year.

8. Investment Property

The investment property was valued at current market value as at 26 August 1998 by David Delisser & Associates Real Estate Appraisers.

9. Other Investments

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'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 - \$209,000; 1997- \$924,000)	91	183	91	173
Investment in Carib Pipe Limited Ordinary shares	87	87	72	72
Mortgages and other unquoted	30	30	25	25
	<u>208</u>	<u>300</u>	<u>673</u>	<u>755</u>

10. Long Term Receivable

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

11. Subsidiary Companies

	1998 \$'000	1997 \$'000
Due from subsidiaries	109,522	93,724
Loans	(73)	(73)
	<u>109,449</u>	<u>93,651</u>

12. Payables

This includes:

(i) Amounts payable to Russgram Investments Limited of \$13,038,000 (1997 - \$5,511,000) in respect of film hireage expenses.

(ii) Amounts due to the Managing Director of \$715,000 (1997 - \$661,000).

13. Short Term Loans

These represent loans by Jamaica General Insurance Company Limited at 30% interest rate and are repayable by August 1998. These loans are secured by an unconditional personal guarantee from the managing director.

14. Share Capital

	1998 \$'000	1997 \$'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>

15. Capital Reserve

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
At beginning of year -				
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>
Movement during the year -				
Transfer to investment reserve (Note 16)	-	(16,134)	-	(16,134)
Gain on the disposal of fixed assets	-	40,671	-	23,795
	<u>-</u>	<u>43,488</u>	<u>-</u>	<u>25,795</u>

Comprised of -

Unrealised surplus on revaluation of fixed assets	2,231	2,231	1,373	1,373
Realised capital gains	40,868	40,868	23,795	23,795
Reserve on consolidation	389	389	-	-
	<u>43,488</u>	<u>43,488</u>	<u>25,168</u>	<u>25,168</u>

16. Investment Reserve

	The Group & The Company	
	1998 \$'000	1997 \$'000
At beginning of year		
Surplus on revaluation of investment property (Note 2(f))	114,338	-
Movement during the year		
Transfer from capital reserve (Note 15)	-	16,134
(Deficit)/surplus on revaluation of investment property	(17,481)	98,204
	<u>96,857</u>	<u>114,338</u>

17. Long Term Liabilities

	The Group & The Company	
	1998 \$'000	1997 \$'000
(a) Dehring, Bunting and Golding Limited (US\$917,200) - 17%	33,403	-
(b) Dehring, Bunting and Golding Limited - 32%	7,667	66,000
(c) Citizens Bank Limited (US\$78,169; (1997- US\$145,000) - 17%	2,847	5,085
(d) National Development Bank/Horizon Merchant Bank Limited - 16.75%	30,000	-
	73,917	71,085
Less: Current portion	10,557	8,033
	<u>63,360</u>	<u>63,052</u>

Loans (a) and (b) from Dehring, Bunting and Golding Limited are repayable by April 2002 and are 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. These loans were used for the rebuilding and refurbishing of the Carib Cinema in 1997.

Loan (c) from Citizens Bank Limited is repayable by August 1999 and is secured by the unconditional personal guarantee of the managing director.

During the year, the company refinanced \$30 million of debt with funds from the National Development Bank of Jamaica (NDB) through Horizon Merchant Bank Limited (loan (d)). This loan is repayable by April 2002. The company received a moratorium on principal repayments until February 1999.

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:

	The Group		The Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
In the year ending June 30 1998	-	8,230	-	6,326
1999	<u>1,066</u>	<u>1,801</u>	<u>1,066</u>	<u>1,801</u>
Total minimum lease payments	1,066	10,031	1,066	8,127
Less: Future finance charges	<u>92</u>	<u>2,670</u>	<u>92</u>	<u>2,418</u>
Present value of minimum lease payments	974	7,361	974	5,709
Less: Current portion	<u>974</u>	<u>6,387</u>	<u>974</u>	<u>4,735</u>
	<u>-</u>	<u>974</u>	<u>-</u>	<u>974</u>

19. Shareholder's Loan

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

20. National Housing Trust

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

21. 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 \$1,733,000 for the group and \$1,415,000 for the company (1997 - \$1,494,000 and \$1,253,000 respectively).

22. Operating Lease Commitments

Lease commitments at 30 June 1998 relating to rental of premises amounted to approximately \$12,935,000 and are scheduled for payment as follows:

	The Group & The Company
	\$'000
In the year ending 30 June 1999	2,989
2000	3,336
2001	3,647
2002	1,917
2003	<u>1,046</u>
