

THE PALACE AMUSEMENT COMPANY (1921) LIMITED 1999

Notes to the Financial Statements

30 June 1999

1. IDENTIFICATION, 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.

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 \$40,676,000 (1998 - \$46,207,000).

These financial statements are presented in Jamaican dollars.

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 and depreciation

Fixed assets are recorded at cost or subsequent valuation and depreciated over their estimated useful lives. Annual depreciation rates are as follows:

Theatre and other buildings	2.5%
Leasehold improvements	10%
Plant, equipment and furniture and fixtures	10%
Motor vehicle	20%

(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, 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 currencies

Transactions during the year are converted at the rates of exchange ruling on transaction dates. Assets and liabilities are translated at rates of exchange ruling at balance sheet date. 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:

	1999	1998
	\$'000	\$'000
Depreciation	12,094	12,094
Auditors' remuneration -		
Current year	1,494	1,528
Prior year	-	5
Directors' emoluments -		
Fees	396	378
Management remuneration	5,689	5,016
Redundancies	944	-
Interest expense	14,029	21,656
Interest income	(343)	(929)
Investment income	(43)	(31)
Loss/(Gain) on exchange	<u>1,285</u>	<u>(941)</u>

4. TAXATION

There is no charge for taxation due to losses sustained.

Subject to agreement with the Commissioner of Income Tax, losses of approximately \$47,226,000 for the group and \$24,997,000 for the company (1998 - \$50,545,000 and \$18,000,000 respectively) are available for set off against future taxable profits, and may be carried forward indefinitely.

5. EXTRAORDINARY ITEM

This represents the gain arising from the sale of the company's investment in Colony Theatre Limited during the year.

6. LOSS PER STOCK UNIT

The loss per stock unit calculations are based on the net loss 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						
	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 1998	2,532	74,726	1,183	4,178	97,449	576	180,644
Additions	-	576	-	-	1,469	-	2,045
Disposal	-	-	-	-	(51)	-	(51)
At 30 June 1999	<u>2,532</u>	<u>75,302</u>	<u>1,183</u>	<u>4,178</u>	<u>98,867</u>	<u>576</u>	<u>182,638</u>
Depreciation -							
At 1 July 1998	-	2,112	165	2,696	26,072	-	31,045
Charge for the year	-	1,878	29	418	9,769	-	12,094
On disposals	-	-	-	-	-51	-	(51)
At 30 June 1999	<u>-</u>	<u>3,990</u>	<u>194</u>	<u>3,114</u>	<u>35,790</u>	<u>-</u>	<u>43,088</u>

Net Book Value -

30 June 1999	2,532	71,312	989	1,064	63,077	576	139,550
30 June 1998	2,532	72,614	1,018	1,482	71,377	576	149,599

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 1998	1,498	381	1,183	4,178	31,603	576	39,419
Additions	-	-	-	-	1,067	-	1,067
Disposal	-	-	-	-	(51)	-	(51)
At 30 June 1999	1,498	381	1,183	4,178	32,619	576	40,435
Depreciation -							
At 1 July 1998	-	57	165	2,696	15,949	-	18,867
Charge tor the year	-	9	29	418	3,167	-	3,623
On disposals	-	-	-	-	(51)	-	(51)
At 30 June 1999	-	66	194	3,114	19,065	-	22,439
Net Book Value -							
30 June 1999	1,498	315	989	1,064	13,554	576	17,996
30 June 1998	1,498	324	1,018	1,482	15,654	576	20,552

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.

8. INVESTMENT PROPERTY

The investment property was valued at current market value as at 15 July 1999 by David Delisser & Associates Real Estate Appraisers.

9. OTHER INVESTMENTS

	The Group		The Company	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
At Cost-				
Subsidiaries				
Cinema Company of Jamaica				
135,800 Ordinary shares of \$2 each	-	-	272	272
Harbour View Cinema Company				
34,303 Ordinary shares of \$2 each	-	-	68	68
Tropical Cinema Company				
72,342 Ordinary shares of \$2 each	-	-	145	145
Quoted (market value - \$146,000; 1998 - \$209,000)	96	91	96	91
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>
	<u>213</u>	<u>208</u>	<u>678</u>	<u>673</u>

10. SUBSIDIARY COMPANIES

	1999	1998
	\$'000	\$'000
Due from subsidiaries	98,551	109,522
Loans	<u>(73)</u>	<u>(73)</u>
	<u>98,478</u>	<u>109,449</u>

11. PAYABLES

This includes:

- (i) Amounts payable to Russgram Investments Limited of \$16,322,000 (1998 \$13,038,000) in respect of film hireage expenses, and \$3,149,000 (1998 - \$1,135,000) representing short term advances.
- (ii) Amounts due to the Managing Director of \$2,715,000 (1998 - \$715,000).

12. SHORT TERM LOANS

	1999	1998
	\$'000	\$'000
(a) Jamaica General Insurance Company Limited - 30%	3,000	3,000
(b) Jamaica Citizens Bank Limited - 24%	<u>6,521</u>	<u>-</u>
	<u>9,521</u>	<u>3,000</u>

- (a) This loan is secured by an unconditional personal guarantee from the Managing Director and is repayable by August 1999.
- (b) This represents commercial paper transactions.

13. SHARE CAPITAL

	1999 \$'000	1998 \$'000
Authorised - 1,500,000 Ordinary 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 RESERVES

	The Group		The Company	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
At beginning of year -				
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>
Movement during the year -				
Gain on disposal of investment (Note 5)	6,696	-	6,696	-
	<u>50,184</u>	<u>43,488</u>	<u>31,864</u>	<u>25,168</u>
Comprised of -				
Unrealised surplus on revaluation of fixed assets	2,231	2,231	1,373	1,373
Realised capital gains	47,564	40,868	30,491	23,795
Reserve on consolidation	389	389	-	-
	<u>50,184</u>	<u>43,488</u>	<u>31,864</u>	<u>25,168</u>

15. INVESTMENT RESERVE

	The Group & The Company	
	1999	1998
	\$'000	\$'000
At beginning of year -		
Surplus on revaluation of investment property (Note 2 (f))	96,857	114,338
Movement during the year -		
Deficit on revaluation of investment property	<u>(3,231)</u>	<u>(17,481)</u>
	<u>93,626</u>	<u>96,857</u>

16. LONG TERM LIABILITIES

	The Group & The Company	
	1999	1998
	\$'000	\$'000
(a) Dehring, Bunting and Golding Limited (US\$907,988); (1998 - US\$917,200) - 17%	35,403	33,403
(b) Dehring, Bunting and Golding Limited - 32%	-	7,667
(c) Citizens Bank Limited (US\$11,034); (1998 - US\$78,169) - 17%	435	2,847
(d) National Development Bank/ Citizens Bank Limited - 13%	<u>29,529</u>	<u>30,000</u>
	65,367	73,917
Less: Current portion	<u>(13,535)</u>	<u>(10,557)</u>
	<u>51,832</u>	<u>63,360</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.

In the prior year, the company refinanced \$30 million of debt with funds from the National Development Bank of Jamaica (NDB) through Horizon Merchant Bank Limited (now Citizens Bank Limited) (loan (d)). This loan is repayable by April 2006. The company received a moratorium on principal repayments until February 1999.

17. 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	
	1999	1998
	\$'000	\$'000
Total minimum lease payments	-	1,066
Less: Future finance charges	-	<u>92</u>
Present value of minimum lease payments	-	974
Less: Current portion	-	<u>974</u>
	<u>-</u>	<u>-</u>

18. 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.

19. NATIONAL HOUSING TRUST

Compulsory contributions made to 31 July 1979, which were charged to profit and loss account, amounted to \$48,970 for the group and \$41,612 for the company, and are recoverable in the years 2001 - 2004.

20. PENSION SCHEME

- (a) The company participates in a joint contributory pension scheme, which is open to all permanent employees and administered for The Palace Amusement Company (1921) Limited by Guardian Life Limited (formerly administered Mutual Life). Retirement benefits are based on the average annual earnings in the last three years to retirement and death benefits on members' accumulated contribution.

The latest actuarial valuation of the plan as at 30 June 1998 disclosed a deficiency in respect of past service liability of approximately \$13,250,000. The actuaries recommend that the deficiency be funded over three years commencing 2000 by payments of \$5,235,000 in each year, subject to the approval of the Commissioner of Income Tax. The actuaries further recommend that the annual contribution rates be set at 5% of earnings for employees and 6.5% for employers. The directors have not yet accepted the recommendation of the actuaries.

- (b) The subsidiaries participate in a pension plan administered 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.

Contributions charged in these financial statements amount to \$1,838,000 for the group and \$1,493,000 for the company (1998 - \$1,733,000 and \$1,415,000 respectively).

21. OPERATING LEASES

The minimum annual lease payments required under operating leases through to their expiry are as follows:

	The Group & The Company.
	\$'000
In the year ending 30 June 2000	3,336
2001	3,647
2002	1,917
2003	<u>1,045</u>
	9,945
