

THE PALACE AMUSEMENT COMPANY (1921) LIMITED 2000

Notes to the Financial Statements

1. Identification, Principal Activities and Related Party Transactions

The company and its subsidiaries are incorporated and resident in Jamaica and are involved in the entertainment industry. Group revenue comprises box office receipts, theatre confectionery sales, rental income net of general consumption tax 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 the 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 \$40,409,000 (1999 \$40,676,000).

These financial statements are presented in Jamaican dollars.

2. Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with Jamaican Accounting Standards, and have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

(b) Use of estimates

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) 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%

(d) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, long term and short term loans, receivables and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The fair values of the company's financial instruments are discussed in Note 21.

(e) Fixed assets and depreciation

All fixed assets are initially recorded at cost. Freehold land and buildings are subsequently shown at market valuation and depreciated replacement cost, respectively, based on valuations by external independent valuers, less subsequent depreciation of buildings.

Increases in carrying amounts arising on revaluation are credited to the capital reserve in shareholders' equity. Decreases that offset previous increases of the same assets are charged against the capital reserve; all other decreases are charged to the profit and loss account.

Depreciation is calculated mainly on the straight line basis at such rates as will write off the carrying value of the assets over the period of their expected useful lives. The expected useful lives are as follows:

Theatre and other buildings	40 years
Leasehold improvements	10 years
Plant, equipment and furniture and fixtures	10 years
Motor vehicles	5 years

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit.

(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. Provision is only made where, in the opinion of the directors, there is a permanent diminution in the value of the investment, which is then recognised as an expense in the profit and loss account.

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

On the disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit and loss account.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the first-in, first-out basis. Net realisable value is the estimate of the selling price in the ordinary course of business.

(i) Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

(j) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, net of bank overdrafts.

(k) 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.

(l) Employee benefit costs

The company operates a defined benefit contribution plan, the assets of which are generally held in a separate trustee-administered fund. The company accrues and funds pension costs annually. Such costs are actuarially determined and include amounts to fund past and future service benefits and expenses.

(m) Revenue recognition

Box office receipts and concession sales are recognised on collection. Rental income is recognised when due from lessee.

(n) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to take into account the requirements of the following new Accounting Standards:

- (i) JSSAP 3.29 - Financial Instruments: Disclosure and Presentation
- (ii) JSSAP 3.30 - Presentation of Financial Statements

3. Operating Profit

The following items have been charged in arriving at operating profit:

	2000	1999
	\$'000	\$'000
Auditors' remuneration	1,572	1,494
Directors' emoluments -		
Fees	321	396
Management remuneration	5,722	5,689
Staff costs (Note 4)	<u>38,423</u>	<u>42,521</u>

4. Staff Costs

	2000	1999
	\$'000	\$'000
Wages and salaries	28,793	31,961
Statutory contributions	3,567	4,097
Pension costs	1,684	1,839
Others	<u>4,379</u>	<u>4,624</u>
	<u>38,423</u>	<u>42,521</u>

The group employed 156 persons at the end of the year (1999 - 102).

5. Financial Expenses

	2000	1999
	\$'000	\$'000
Interest income	416	327
Investment income	67	43
Foreign exchange losses, net	(1,098)	(1,285)
Interest expense	<u>(12,712)</u>	<u>(14,028)</u>
	<u>(13,327)</u>	<u>(14,943)</u>

6. Taxation

There is no charge for taxation due to the utilisation of tax losses brought forward from previous years.

Subject to agreement with the Commissioner of Income Tax, losses of approximately \$59,470,000 for the group and \$29,765,000 for the company (1999 - \$57,088,000 and \$28,055,000 respectively) are available for set off against future taxable profits, and may be carried forward indefinitely.

7. Extraordinary Item

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

8. Net Profit/(Loss) and Accumulated Deficit Attributable to the Stockholders

	2000	1999
	\$'000	\$'000
(a) The net profit/(loss) are dealt with as follows in the financial statements of:		
The company	(3,310)	(5,088)
The subsidiaries	<u>7,369</u>	<u>3,192</u>
	<u>4,059</u>	<u>(1,896)</u>

(b) The (accumulated deficit) /retained earnings are dealt with as follows in the financial statements of:

The company	(28,441)	(25,131)
The subsidiaries	<u>8,343</u>	<u>974</u>
	<u>(20,098)</u>	<u>(24,157)</u>

9. Earnings/(Loss) Per Stock Unit

The earnings/(loss) per stock unit calculations are based on the net profit/(loss) before and after extraordinary item (Note 7) and 1,437,028 ordinary stock units in issue at the end of both years.

10. 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 1999	2,532	75,302	1,183	4,178	98,867	576	182,638
Additions	-	-	-	-	839	-	839
Disposals	-	-	-	-	(443)	-	(443)
At 30 June 2000	<u>2,532</u>	<u>75,302</u>	<u>1,183</u>	<u>4,178</u>	<u>99,264</u>	<u>576</u>	<u>183,034</u>
Depreciation -							
At 1 July 1999	-	3,990	194	3,114	35,790	-	43,088
Charge for the year	-	1,879	28	417	9,683	-	12,007
On disposals	-	-	-	-	(443)	-	(443)
At 30 June 2000	<u>-</u>	<u>5,869</u>	<u>222</u>	<u>3,531</u>	<u>45,030</u>	<u>-</u>	<u>54,652</u>
Net Book Value -							
30 June 2000	<u>2,532</u>	<u>69,433</u>	<u>961</u>	<u>647</u>	<u>54,233</u>	<u>576</u>	<u>128,382</u>
30 June 1999	<u>2,532</u>	<u>71,312</u>	<u>989</u>	<u>1,064</u>	<u>63,077</u>	<u>576</u>	<u>139,550</u>

	The Company						
	Freehold	Theatre	Other	Leasehold	Equipment, Fixtures & Motor Vehicles	Capital Work-in- Progress	Total
	Land	Buildings	Buildings	Buildings			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost or Valuation -							
At 1 July 1999	1,498	381	1,183	4,178	32,619	576	40,435
Additions	-	-	-	-	623	-	623
Disposal	-	-	-	-	(443)	-	(443)
At 30 June 2000	<u>1,498</u>	<u>381</u>	<u>1,183</u>	<u>4,178</u>	<u>32,799</u>	<u>576</u>	<u>40,615</u>
Depreciation -							
At 1 July 1999	-	66	194	3,114	19,065	-	22,439
Charge for the year	-	10	28	417	3,062	-	3,517
On disposals	-	-	-	-	-443	-	(443)
At 30 June 2000	<u>-</u>	<u>76</u>	<u>222</u>	<u>3,531</u>	<u>21,684</u>	<u>-</u>	<u>25,513</u>
Net Book Value -							
30 June 2000	<u>1,498</u>	<u>305</u>	<u>961</u>	<u>647</u>	<u>11,115</u>	<u>576</u>	<u>15,102</u>
30 June 1999	<u>1,498</u>	<u>315</u>	<u>989</u>	<u>1,064</u>	<u>13,554</u>	<u>576</u>	<u>17,996</u>

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

- (a) The freehold land of Harbour View Cinema Company Limited was valued by Orville Grey and Associates, professional valuers, as at 30 June 1984.
- (b) Other freehold land and buildings are based on independent appraisals done in 1972.

Additions subsequent to revaluations are stated at cost.

11. Investment Property

The investment property was valued at current market value as at 15 December 1999 by David Delisser & Associates Real Estate Appraisers. No valuations have been booked since that date, as it is the directors' opinion that current market conditions do not support any further upliftment in the carrying value of the investment property.

12. Other Investments

	The Group		The Company	
	2000	1999	2000	1999
At cost -				
Subsidiaries				
Cinema Company of Jamaica Limited				
135,800 Ordinary shares of \$2 each	-	-	272	272
Harbour View Cinema Company Limited				
34,303 Ordinary shares of \$2 each	-	-	68	68
Tropical Cinema Company Limited				
72,342 Ordinary shares of \$2 each	-	-	145	145
Quoted (market value - \$296,000;				
1999 - \$146,000)	96	96	96	96
Carib Pipe Limited - Ordinary shares	87	87	72	72
Mortgages and other unquoted	30	30	25	25
	<u>213</u>	<u>213</u>	<u>678</u>	<u>678</u>

13. Subsidiary Companies

	2000	1999
	\$'000	\$'000
Due from subsidiaries	81,496	98,551
Loans	(73)	(73)
	<u>81,423</u>	<u>98,478</u>

14. Accounts Payable and Accrued Liabilities

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Trade payables (Note (a))	29,145	22,585	26,193	20,371
Accruals	(234)	(327)	-	-
Other payables (Note (b))	9,045	13,450	6,081	11,086
	<u>43,175</u>	<u>43,791</u>	<u>37,257</u>	<u>39,213</u>

(a) This includes \$15,536,000 (1999 - \$19,471,000) payable to Russgram Investments Limited in respect of film hireage expenses and short term advances.

(b) This includes \$2,715,000 (1999 - \$2,715,000) due to the Managing Director.

15. Short Term Loans

	2000	1999
	\$'000	\$'000
(a) Jamaica General Insurance Company Limited - 30%	3,000	3,000
(b) Union Bank Limited - 24%	-	6,521
	<u>3,000</u>	<u>9,521</u>

Loan (a) is secured by an unconditional personal guarantee from the Managing Director and is repayable by August 2000.

Loan (b) represented commercial paper transactions.

16. Share Capital

	2000	1999
	\$'000	\$'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>

17. Capital Reserve

	The Group		The Company	
	2000	1999	2000	1999
	\$'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	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>
Movement during the year -				

Gain on disposal of investment (Note 7)	-	6,696	-	6,696
	<u>50,184</u>	<u>50,184</u>	<u>31,864</u>	<u>31,864</u>
Comprised of -				
Unrealised surplus on revaluation of fixed assets	2,231	2,231	1,373	1,373
Realised capital gains	47,564	47,564	30,491	30,491
Reserve on consolidation	389	389	-	-
	<u>50,184</u>	<u>50,184</u>	<u>31,864</u>	<u>31,864</u>

18. Long Term Liabilities

	The Group & The Company	
	2000	1999
	\$'000	\$'000
(a) Dehring, Bunting and Golding Limited (US\$640,000; 1999 - US\$908,000) - 17%	27,157	35,403
(b) Union Bank Limited (1999 - US\$11,000) - 17%	-	435
(c) National Development Bank/Union Bank Limited - 13%	<u>23,929</u>	<u>29,529</u>
	51,086	65,367
Less: Current portion	<u>(17,791)</u>	<u>(13,535)</u>
	<u>33,295</u>	<u>51,832</u>

Loan (a) 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 in 1997.

Loan (b) was repaid by August 1999 and was secured by the unconditional personal guarantee of the managing director.

Loan (c) is repayable by April 2006. The company had received a moratorium on principal repayments until February 1999.

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 approximately \$49,000 for the group and \$42,000 for the company, and are recoverable in the years 2001-2004.

21. Financial Instruments

Currency risk

The consolidated balance sheet at 30 June 2000 includes aggregate net foreign liabilities of approximately US\$595,000 (1999 - US\$933,000) in respect of transactions arising in the ordinary course of business.

Credit risk

Cash is held with substantial financial institutions. There are no significant concentrations of risk attached to trade receivables as these amounts are not concentrated in any given sector or institution and are shown net of provisions for doubtful debts.

Fair values

The amounts included in the financial statements for cash, receivables, payables, bank, and short term loans reflect their approximate fair value because of the short term maturity of these instruments.

The estimated fair values of the group's other financial instruments are as follows:

	2000		1999	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
Financial assets				
Investment property	164,840	164,840	95,833	95,833
Other investments	213	413	213	263
Financial liabilities				

Long term liabilities (including current portion) 51,086 51,086 65,367 65,367

The estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented above are not necessarily indicative of the amounts that the group would realise in a current market exchange.

Fair values were estimated as follows:

Investment property

The carrying value of investment property approximates fair value because investment property is stated at market value determined by an annual valuation (Note 2(f)).

Other investments

The fair value of equity instruments is determined based on quoted market prices for these instruments. Where quoted market prices are not available, an approximation of fair value is based on the net underlying assets of the investee.

Long term liabilities

The fair value of long term liabilities either approximate their carrying amounts or are estimated using discounted cash flow analyses based on the group's current incremental borrowing rates for similar types of borrowing arrangements.

22. 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 by 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 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 \$1,684,000 for the group and \$1,396,000 for the company (1999 - \$1,839,000 and \$1,493,000 respectively).
