

THE PALACE AMUSEMENT COMPANY (1921) LIMITED

Notes to the Financial Statements

30 June 2001

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 and other income from third parties. The company is a 62% subsidiary of Russgram Investments Limited, which is also incorporated in Jamaica.

Films are rented from United International Pictures, which represents Universal Pictures, Paramount Pictures, Dreamworks; 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 \$46,997,000 (2000 - \$40,409,000).

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) Basis of 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%

(d) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, deposits, investments, long term and short term loans, trade receivables and payables and accrued liabilities. 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 24.

(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 determined on a portfolio basis.

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, and deposits held at call with banks, 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.

3 Operating Profit

The following items have been charged/(credited) in arriving at operating profit:

	2001 \$'000	2000 \$'000
Auditors' remuneration		
Current year	1,563	1,572
Prior year	(91)	-
Depreciation	12,834	12,007
Directors' emoluments -		
Fees	501	321
Management remuneration	6,602	5,722
Gain on sale of fixed assets	(230)	(17)
Repairs, maintenance and renewals	13,079	9,080
Staff costs (Note 4)	47,528	38,423
	=====	=====

4 Staff Costs

	2001	2000
	\$'000	\$'000
Wages and salaries	34,703	28,793
Statutory contributions	4,365	3,567
Pension costs	1,814	1,684
Others	<u>6,646</u>	<u>4,379</u>
	<u>47,528</u>	<u>38,423</u>
	=====	=====

The group employed 163 persons at the end of the year (2000 - 156).

5 Financial Income/(Expenses)

	2001	2000
	\$'000	\$'000
Interest income	14,989	416
Investment income	41	67
Foreign exchange losses, net	(212)	(1,098)
Interest expense	<u>(8,906)</u>	<u>(12,712)</u>
	<u>5,912</u>	<u>(13,327)</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 Taxpayer Audit and Assessment Department, losses of approximately \$24,808,000 for the group and \$18,762,000 for the company (2000 - \$51,921,000 and \$29,995,000 respectively) are available for set off against future taxable profits, and may be carried forward indefinitely.

7 Net Profit and Retained Earnings/(Accumulated Deficit) Attributable to the Stockholders

	2001 \$'000	2000 \$'000
(a) The net profit/(loss) are dealt with as follows in the financial statements of :		
The company	9,134	(3,310)
The subsidiaries	<u>16,434</u>	<u>7,369</u>
	<u>25,568</u>	<u>4,059</u>
	=====	=====
(b) The retained earning/(accumulated deficit) are dealt with as follows in the financial statements of:		
The company	(19,307)	(28,441)
The subsidiaries	<u>24,777</u>	<u>8,343</u>
	<u>5,470</u>	<u>(20,098)</u>
	=====	=====

8 Earnings Per Stock Unit

The earnings per stock unit calculations are based on the net profit and 1,437,028 ordinary stock units in issue at the end of both years.

9 Fixed Assets

	The Group						.
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Improvements \$'000	Equipment, Fixtures & Motor Vehicles \$'000	Capital Work-in- Progress \$'000	Total \$'000
At Cost or Valuation -							
At 1 July 2000	2,532	75,302	1,183	4,178	99,263	576	183,034
Additions	-	-	-	-	4,033	8,350	12,383
Disposals	-	-	-	-	(715)	-	(715)
At 30 June 2001	<u>2,532</u>	<u>75,302</u>	<u>1,183</u>	<u>4,178</u>	<u>102,581</u>	<u>8,926</u>	<u>194,702</u>
Depreciation -							

At 1 July 2000	-	5,869	222	3,531	45,030	-	54,652
Additions	-	1,879	28	417	10,510	-	12,834
Disposals	-	-	-	-	(715)	-	(715)
At 30 June 2001	-	7,748	250	3,948	54,825	-	66,771
Net Book Value -							
30 June 2001	2,532	67,554	933	230	47,756	8,926	127,931
30 June 2000	2,532	69,433	961	647	54,233	576	128,382

The Company							
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Improvements \$'000	Equipment, Fixtures & Motor Vehicles \$'000	Capital Work-in- Progress \$'000	Total \$'000
At Cost or Valuation -							
At 1 July 2000	1,498	381	1,183	4,178	32,799	576	40,615
Additions	-	-	-	-	3,114	8,350	11,464
Disposal	-	-	-	-	(715)	-	(715)
At 30 June 2001	1,498	381	1,183	4,178	35,198	8,926	51,364
Depreciation -							
At 1 July 2000	-	76	222	3,531	21,684	-	25,513
Charge for the year	-	10	28	417	3,839	-	4,294
On disposals	-	-	-	-	(715)	-	(715)
At 30 June 2001	-	86	250	3,948	24,808	-	29,092
Net Book Value -							
30 June 2001	1,498	295	933	230	10,390	8,926	22,272
30 June 2000	1,498	305	961	647	11,115	576	15,102

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.

10 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. The investment property was sold during the year, however, the sale was not completed as at year end (Note 27).

11 Other Investments

	<u>The Group</u>		<u>The Company</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
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-\$552,000;				
2000 - \$296,000)	96	96	96	96
Carib Pipe Limited - Ordinary Shares	87	87	72	72
Mortgages and other unquoted	5	30	-	25
	<u>188</u>	<u>213</u>	<u>653</u>	<u>678</u>
	=====	=====	=====	=====

12 Subsidiary Companies

	2001	2000
	\$'000	\$'000
Due from subsidiaries	57,602	81,496
Loans	<u>(73)</u>	<u>(73)</u>
	<u>57,529</u>	<u>81,423</u>
	=====	=====

13. Inventories

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Confectionery	1,614	1,487	898	681
General stores	8,052	7,576	8,052	7,576
Other	<u>2,452</u>	<u>753</u>	<u>2,452</u>	<u>753</u>
	<u>12,118</u>	<u>9,816</u>	<u>11,402</u>	<u>9,010</u>
Provision for obsolescence	<u>(205)</u>	<u>(205)</u>	<u>(205)</u>	<u>(205)</u>
	<u>11,913</u>	<u>9,611</u>	<u>11,197</u>	<u>8,805</u>
	=====	=====	=====	=====

14 Accounts receivable

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Trade	5,625	5,467	5,625	5,467
Prepayments	1,603	1,118	1,603	1,118
Other	<u>4,350</u>	<u>5,731</u>	<u>4,348</u>	<u>5,597</u>
	<u>11,578</u>	<u>12,316</u>	<u>11,576</u>	<u>12,182</u>
	=====	=====	=====	=====

15 Deposits

The weighted average interest rate on short term deposits was 14.38% (2000 - Nil%) and these deposits have an average maturity of 30 days.

16 Accounts Payable and Accrued Liabilities

	<u>The Group</u>		<u>The Company</u>	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
(a) Trade payables	24,448	29,145	20,847	26,193
(b) Other payables and accruals	8,926	14,030	6,672	11,064
(c) Deposit	<u>129,400</u>	<u>-</u>	<u>129,400</u>	<u>-</u>
	<u>162,774</u>	<u>43,175</u>	<u>156,919</u>	<u>37,257</u>
	=====	=====	=====	=====

(a) This balance includes \$7,018,000 (2000 - \$15,536,000) payable to Russgram Investments Limited in respect of film hireage expenses and short term advances.

(b) This balance includes \$416,000 (2000 - \$2,715,000) due to the Managing Director.

(c) This balance represents 75% of the agreed sale price for the Odeon Complex.

17 Short Term Loan

This loan was held with Jamaica General Insurance Co. Ltd. and secured by an unconditional personal guarantee from the Managing Director. It attracted interest at a rate of 30% and was repaid on 31 May 2001.

18 Bank overdraft

The company has a bank overdraft facility totalling \$10,000,000 (2000 - \$10,000,000). The facility is secured by Government of Jamaica Local Registered Stocks of \$10 million held with Union Bank Limited.

19 Share Capital

	2001 \$'000	2000 \$'000
Authorised - 1,500,000 ordinary shares of \$1 each	1,500 =====	1,500 =====
Issued and fully paid - 1,437,028 stock units of \$1 each	1,437 =====	1,437 =====

20 Capital Reserve

	<u>The Group</u>		<u>The Company</u>	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
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> =====

21 Long Term Liabilities

	<u>The Group & The Company</u>	
	2001	2000
	\$'000	\$'000
(a) Dehring, Bunting and Golding Limited (US\$Nil; 2000 - US\$640,000) - 17%	-	27,157
(b) National Development Bank/Union Bank Limited - 13%	<u>19,643</u>	<u>23,929</u>
	19,643	51,086
Less: Current portion	<u>(4,286)</u>	<u>(17,791)</u>
	15,357	33,295
	=====	=====

- (a) This loan was repaid in January 2001 and was 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.
- (b) This loan is repayable by April 2006. The company had received a moratorium on principal repayments until February 1999. The loan is secured on a first mortgage over the Carib Cinema.

22 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.

23 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 is recoverable in the years 2001 - 2004.

24 Financial Instruments

(a) Currency risk

The consolidated balance sheet at 30 June 2001 includes aggregate net foreign assets of approximately US\$258,000 (2000 - Net foreign liabilities of approximately US\$595,000) in respect of transactions arising in the ordinary course of business.

(b) Interest rate risk

The group's income and operating cash flows are substantially independent of changes in market interest rates. At 30 June 2001, the group has interest-bearing assets as disclosed in Note 15 and interest-bearing liabilities as disclosed in Notes 21 and 22.

(c) Market risk

The group has no significant exposure to market risk as the financial instruments subject to this risk are not material to the group.

(d) 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.

(e) Liquidity risk

Due to the dynamic nature of the underlying business, the management of the group aims at maintaining flexibility in funding by keeping committed lines of credit available.

(f) Fair values

The amounts included in the financial statements for cash, short term deposits, trade receivables and 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:

	2001		2000	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Investment property	164,840	164,840	164,840	164,840
Other investments	188	644	213	413
Financial liability				
Long term liabilities (including current portion)	19,643	19,643	51,086	51,086
	=====		=====	

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

Long term liabilities incur interest at prevailing market rates and reflect the group's contractual obligations. The carrying value of these liabilities approximates amortised cost, and are therefore deemed to be shown at fair value.

25 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 2000 disclosed a deficiency in respect of past service liability of approximately \$15,062,000. The actuaries recommend that the deficiency be funded over five years commencing 1 July 2001 by payments of \$3,872,000 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 7.3% 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 in respect of both schemes amount to \$1,814,000 (2000 \$1,684,000) for the group and \$1,542,000 (2000 - \$1,396,000) for the company.

26 Contingency

C. D. Alexander Company Realty Limited has filed a Writ of Summons claiming outstanding commission of 5% on the sale of the Odeon Complex, which amounts to approximately \$9,919,000 inclusive of General Consumption Tax. The directors are of the opinion that this matter will be settled favourably and, as such, no provision has been made in these financial statements.

27 Subsequent Event

The company received \$43,100,000 in Land Bonds in July 2001 from The Commissioner of Lands representing the final payment for the sale of the company's investment property, The Odeon Complex.
