

THE PALACE AMUSEMENT COMPANY (1921) LIMITED

Notes to the Financial Statements

30 June 2002

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 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 \$49,254,000 (2001 - \$46,997,000) .

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	90.1%
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, deposits, investments, long term receivable, long term loan, 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 25.

(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 (Loss)/Profit

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

	2002	2001
	\$'000	\$'000
Auditors' remuneration -		
Current year	1,705	1,563
Prior year	2	(91)
Depreciation	17,774	12,834
Directors' emoluments -		
Fees	581	501
Management remuneration	8,458	6,602

Gain on sale of fixed assets	(85)	(230)
Repairs, maintenance and renewals	14,812	13,079
Staff costs (Note 4)	73,024	51,357
	=====	=====

4 Staff Costs

	2002	2001
	\$'000	\$'000
Wages and salaries	53,484	41,005
Statutory contributions	5,644	4,408
Pension costs	3,864	1,824
Other	<u>10,032</u>	<u>4,120</u>
	<u>73,024</u>	<u>51,357</u>
	=====	=====

The group employed 202 persons at the end of the year (2001 - 163).

5 Financial Income

	2002	2001
	\$'000	\$'000
Interest income	11,973	14,989
Investment income	64	41
Gain on sale of theatres	3,528	-
Foreign exchange gains/(losses), net	3,590	(212)
Interest expense	<u>(3,827)</u>	<u>(8,906)</u>
	<u>15,328</u>	<u>5,912</u>
	=====	=====

6 Taxation

There is no charge for taxation due to losses incurred for tax purposes. These losses result mainly from capital allowances granted for tax purposes exceeding depreciation charged in arriving at the accounting profit.

Subject to agreement with the Taxpayer Audit and Assessment Department, losses of approximately \$40,043,000 for the group and \$33,010,000 for the company (2001 - \$25,103,000 and \$19,687,000 respectively) are available for set off against future taxable profits, and may be carried forward indefinitely.

7 Net Profit and Retained Earnings Attributable to the Stockholders

	2002	2001
	\$'000	\$'000
(a) Net profit is dealt with as follows in the financial statements of:		
The company	5,142	9,134
The subsidiaries	<u>(1,204)</u>	<u>16,434</u>
	3,938	25,568
	=====	=====
(b) Retained earnings are dealt with as follows in the financial statements of:		
The company	28,868	(19,307)
The subsidiaries	<u>23,573</u>	<u>24,777</u>
	52,441	5,470
	=====	=====

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 Capital Distribution

On 31 January 2002, the company paid a capital distribution of \$2.00 per share, net of transfer tax, to registered shareholders as at 10 January 2002.

10 Fixed Assets

	<u>The Group</u>						Total
	Freehold Land	Theatre Buildings	Other Buildings	Leasehold Improvements	Equipment, Fixtures & Motor Vehicles	Capital Work-in- Progress	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or Valuation -							
At 1 July 2001	2,532	75,302	1,183	4,178	102,581	8,926	194,702
Additions	-	-	-	-	7,458	87,746	95,204
Disposals	(422)	(285)	-	-	(961)	(576)	(2,244)
Transfers	-	-	-	38,215	57,225	(95,440)	-
At 30 June 2002	<u>2,110</u>	<u>75,017</u>	<u>1,183</u>	<u>42,393</u>	<u>166,303</u>	<u>656</u>	<u>287,662</u>
Depreciation -							
At 1 July 2001	-	7,748	250	3,948	54,825	-	66,771
Charge for the year	-	1,870	25	2,141	13,738	-	17,774

On disposals	-	(64)	-	-	(958)	-	(1,022)
At 30 June 2002	-	9,554	275	6,089	67,605	-	83,523
Net Book Value -							
30 June 2002	2,110	65,463	908	36,304	98,698	656	204,139
30 June 2001	2,532	67,554	933	230	47,756	8,926	127,931

	The Company						
	Freehold	Theatre	Other	Leasehold	Equipment, Fixtures & Motor Vehicles	Capital Work-in- Progress	Total
	Land	Buildings	Buildings	Improvements	Buildings	Buildings	Buildings
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or Valuation -							
At 1 July 2001	1,498	381	1,183	4,178	35,198	8,926	51,364
Additions	-	-	-	-	6,692	87,746	94,438
Disposals	(422)	(285)	-	-	(961)	(576)	(2,244)
Transfers	-	-	-	38,215	57,225	(95,440)	-
At 30 June 2002	1,076	96	1,183	42,393	98,154	656	143,558
Depreciation -							
At 1 July 2001	-	86	250	3,948	24,808	-	29,092
Charge for the year	-	2	25	2,141	6,962	-	9,130
On disposals	-	(64)	-	-	(958)	-	(1,022)
At 30 June 2002	-	24	275	6,089	30,812	-	37,200
Net Book Value -							
30 June 2002	1,076	72	908	36,304	67,342	656	106,358
30 June 2001	1,498	295	933	230	10,390	8,926	22,272

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 Long Term Receivable

	<u>The Group & The Company</u>	
	2002	2001
	\$'000	\$'000
Flick Holdings Limited	10,538	-
Less: Current portion (included in accounts receivables)	<u>(4,273)</u>	<u>-</u>
	6,265	-
	=====	=====

This represents rental paid in advance and is denominated in US dollars. The amount is recoverable in 30 consecutive monthly instalments commencing January 2002 and attracts interest at a rate of 11%

12 Investment Property

The sale of the company's investment property was completed in July 2001 (Note 18(c)).

13 Other Investments

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'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 - \$1,008,000; 2001 - \$552,000)	96	96	96	96
Other unquoted	<u>92</u>	<u>92</u>	<u>72</u>	<u>72</u>
	188	188	653	653
	=====	=====	=====	=====

14 Subsidiary Companies

Balances with subsidiary companies are as follows:

	2002	2001
	\$'000	\$'000
Current accounts receivable	48,598	57,602
Loan payable	-	(73)
	<u>48,598</u>	<u>57,529</u>
	=====	=====

15 Inventories

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Confectionery	1,798	1,614	1,172	898
General stores	7,452	8,052	7,452	8,052
Other	882	2,452	882	2,452
	<u>10,132</u>	<u>12,118</u>	<u>9,506</u>	<u>11,402</u>
Provision for obsolescence	(205)	(205)	(205)	(205)
	<u>9,927</u>	<u>11,913</u>	<u>9,301</u>	<u>11,197</u>
	=====	=====	=====	=====

16 Accounts Receivable

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Trade	9,029	5,627	9,027	5,625
Prepayments	2,144	1,603	2,144	1,603
Other	4,471	4,348	4,471	4,348
	<u>15,644</u>	<u>11,578</u>	<u>15,642</u>	<u>11,576</u>
	=====	=====	=====	=====

17 Deposits

The weighted average interest rate on short term deposits was 11.33% (2001 - 14.38%) and these deposits have an average maturity of 30 days.

18 Accounts Payable and Accrued Liabilities

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
(a) Trade payables	32,599	24,448	27,268	20,847
(b) Other payables and accruals	9,096	8,926	6,460	6,672
(c) Deposit	-	129,400	-	129,400
	<u>41,695</u>	<u>162,774</u>	<u>33,728</u>	<u>156,919</u>
	=====	=====	=====	=====

(a) This balance includes \$18,079,000 (2001 - \$7,018,000) payable to Russgram Investments Limited in respect of film hireage expenses and short term advances.

(b) This balance includes \$1,097,000 (2001 - \$416,000) due to the Managing Director.

(c) This balance represented 75% of the agreed sale price for the Odeon Complex. The company received \$43,100,000 in Land Bonds in July 2001 from The Commissioner of Lands representing the final payment for the sale.

19 Bank overdraft

The company has a bank overdraft facility totalling \$20,000,000 (2001 - \$10,000,000). The facility is secured by Government of Jamaica Local Registered Stock of \$10 million held with RBTT Bank Jamaica Limited.

20 Share Capital

	2002	2001
	\$'000	\$'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
	=====	=====

21 Capital Reserve

	<u>The Group</u>		<u>The Company</u>	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Comprised of -				
Unrealised surplus on revaluation of fixed asset	2,231	2,231	1,373	1,373
Realised capital gains	164,065	47,564	146,992	30,491
Reserve on consolidation	389	389	-	-
	<u>166,685</u>	<u>50,184</u>	<u>148,365</u>	<u>31,864</u>
	=====	=====	=====	=====

22 Long Term Liability

	<u>The Group & The Company</u>	
	2002	2001
	\$'000	\$'000
Development Bank of Jamaica Limited	15,357	19,643
Less: Current portion	<u>(4,286)</u>	<u>(4,286)</u>
	<u>11,071</u>	<u>15,357</u>
	=====	=====

This loan attracts interest at a rate of 13% and is repayable by April 2006. The company had received a moratorium on principal repayments until February 1999. The loan is secured by a first mortgage over the Carib Cinema.

23 Shareholder's Loan

This loan was repaid during the year. There were no specific repayment terms for this loan, and interest charged was based on current bank rates relating to short term deposits.

24 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.

25 Financial Instruments

(a) Currency risk

The consolidated balance sheet at 30 June 2002 includes aggregate net foreign assets of approximately US\$845,000 (2001 - US\$258,000) 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 2002, the group has interest-bearing assets as disclosed in Notes 11 and 17 and interest-bearing liabilities as disclosed in Notes 22 and 23.

(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 provision 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, and bank overdraft 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:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Long term receivable (including current portion)	10,538	10,538	-	-
Investment property	-	-	164,840	164,840
Other investments	188	1,100	188	644
Financial liability				
Long term liability (including current portion)	15,357	15,357	19,643	19,643
	=====	=====	=====	=====

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:

Long term receivable balance

The long term receivable balance is subject to rates and terms similar to those available in the market for similar instruments. Its carrying value, therefore, approximates its fair value.

Investment property

The carrying value of investment property approximated fair value because investment property was 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 for an investment are not available, an approximation of fair value is based on the net underlying assets of the investee.

Long term liability

Long term liability incurs interest at prevailing market rates and reflects the group's contractual obligations and is, therefore, deemed to be shown at fair value.

26 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. On receipt of this valuation, the directors accepted the recommendation of the actuaries.

In October 2001, the company was advised by the Fund Manager's actuary that the level of the deficiency had reduced to approximately \$8.5 million as at 30 September 2001 and that the annual payments to cover the deficiency should be correspondingly reduced to \$2.1 million. The directors have determined that an independent assessment of the scheme is required to confirm the level of the deficiency.

- (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 \$3,864,000 (2001 - \$1,824,000) for the group and \$3,508,000 (2001 - \$1,556,000) for the company. The contributions for the current year include the amount of \$2.1 million discussed above.

27 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 favourably terminated and, as such, no provision has been made in these financial statements.

28 Subsequent Event

Subsequent to the year end, the company was granted credit facilities of \$30 million by the Development Bank of Jamaica through RBTT Jamaica Limited. The company has since drawn down on the full amount of the facility.