

PULSE INVESTMENTS LIMITED

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

PULSE INVESTMENTS LIMITED

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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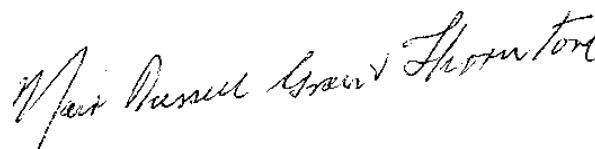
Chartered Accountants

AUDITORS' REPORT**TO THE MEMBERS OF****PULSE INVESTMENTS LIMITED**

We have audited the accompanying balance sheet of Pulse Investments Limited as of June 30, 2004, and the related income statement, statements of changes in equity and cash flows for the year then ended, and have obtained all the information and explanations which we considered necessary. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the company's affairs as at June 30, 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act.



CHARTERED ACCOUNTANTS

March 29, 2005

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PULSE INVESTMENTS LIMITED**BALANCE SHEET****JUNE 30, 2004**

	<u>Note</u>	<u>2004</u> \$	<u>Restated</u> <u>2003</u> \$
ASSETS			
Current assets			
Bank balances	(2k)	193,457	405,977
Trade and other receivables	(3)	27,204,441	33,894,550
Owing by related party	(4)	34,300,429	22,950,167
Unexpired sponsorship in kind	(2d)	<u>69,251,200</u>	<u>47,217,599</u>
		<u>130,949,527</u>	<u>104,468,293</u>
Non-current assets			
Equipment	(5)	1,279,573	1,070,825
Trademarks	(6)	<u>3,440,000</u>	<u>3,680,000</u>
		<u>4,719,573</u>	<u>4,750,825</u>
Total assets		<u>135,669,100</u>	<u>109,219,118</u>
LIABILITIES AND EQUITY			
Current liabilities			
Bank overdraft	(7)	543,423	913,250
Payables and accruals	(8)	7,427,365	7,019,844
Owing to related parties	(4)	11,373,831	16,360,611
Taxation		<u>-</u>	<u>946,931</u>
		<u>19,344,619</u>	<u>25,240,636</u>
Capital and reserves			
Share capital	(9)	3,154,977	3,154,977
Share premium		16,042,281	16,042,281
Advances in respect of rights issue	(10)	9,070,558	9,070,558
Accumulated profits		<u>88,056,665</u>	<u>55,710,666</u>
		<u>116,324,481</u>	<u>83,978,482</u>
Total liabilities and equity		<u>135,669,100</u>	<u>109,219,118</u>

Certain previous year figures have been restated to conform to current year's presentation.

The attached notes on Statement VI form an integral part of these financial statements.

Approved by the Board of Directors on March 29, 2005 and signed on their behalf by:

.....)
) DIRECTORS
.....)

PULSE INVESTMENTS LIMITED**INCOME STATEMENT****YEAR ENDED JUNE 30, 2004**

	<u>Note</u>	<u>2004</u> \$	<u>Restated</u> <u>2003</u> \$
Revenue	(2d)	134,217,546	93,555,095
Other operating income	(2e)	11,496,948	7,403,896
Administrative and general expenses		(114,014,398)	(73,930,370)
Other operating expenses		<u>(147,899)</u>	<u>(468,481)</u>
Profit from operations		31,552,197	26,560,140
Finance costs		<u>(153,129)</u>	<u>(218,922)</u>
Profit before taxes		31,399,068	26,341,218
Income tax	(11c)	<u>946,931</u>	<u>-</u>
Net profit for the year	(12)	<u><u>32,345,999</u></u>	<u><u>26,341,218</u></u>

Certain previous year figures have been restated to conform to current year's presentation.

The attached notes on Statement VI form an integral part of these financial statements.

PULSE INVESTMENTS LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED JUNE 30, 2004

	<u>Share capital</u> \$	<u>Share premium</u> \$	<u>Advance in respect of rights issue</u> \$	<u>Accumulated profits</u> \$	<u>Total</u> \$
Balance as at June 30, 2002	3,154,977	16,042,281	9,070,558	35,275,623	63,543,439
Prior year adjustment (Note 13)	-	-	-	(5,906,175)	(5,906,175)
Restated balance as at June 30, 2002	3,154,977	16,042,281	9,070,558	29,369,448	57,637,264
Restated Net profit for the year	-	-	-	<u>26,341,218</u>	<u>26,341,218</u>
Balance as at June 30, 2003	3,154,977	16,042,281	9,070,558	55,710,666	83,978,482
Net profit for the year	-	-	-	<u>32,345,999</u>	<u>32,345,999</u>
Balance as at June 30, 2004	<u>3,154,977</u>	<u>16,042,281</u>	<u>9,070,558</u>	<u>88,056,665</u>	<u>116,324,481</u>

The attached notes on Statement VI form an integral part of these financial statements.

PULSE INVESTMENTS LIMITED**STATEMENT OF CASH FLOWS****YEAR ENDED JUNE 30, 2004**

	<u>2004</u>	<u>Restated</u>
	\$	\$
Cash flow from operating activities:		
Net profit for the year	31,399,068	26,341,218
Adjustments for:		
Depreciation - current year	167,731	139,522
- prior year	(94,391)	(159,335)
Prior year adjustment	-	(5,906,175)
Amortisation of trademarks	240,000	240,000
Loss on disposal of fixed asset	<u>-</u>	<u>37,783</u>
	31,712,408	20,693,013
Increase in unexpired sponsorship in kind	(22,033,601)	(18,204,600)
Decrease/(increase) in trade and other receivables	6,690,109	(3,195,784)
(Increase)/decrease in owing by related company	(11,350,262)	4,456,010
Increase/(decrease) in payables and accruals	407,521	(3,983,060)
(Decrease)/increase in owing to related company	<u>(4,986,780)</u>	<u>1,963,905</u>
Net cash provided by operations	<u>439,395</u>	<u>1,729,484</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(282,088)</u>	<u>(1,025,200)</u>
Net cash used in investing activities	<u>(282,088)</u>	<u>(1,025,200)</u>
Net increase in cash and cash equivalents	157,307	704,284
Cash and cash equivalents at beginning of year	<u>(507,273)</u>	<u>(1,211,557)</u>
Cash and cash equivalents at end of year (Note 14)	<u>(349,966)</u>	<u>(507,273)</u>

Certain previous year figures have been restated to conform to current year's presentation.

The attached notes on Statement VI form an integral part of these financial statements.

PULSE INVESTMENTS LIMITED**NOTES TO FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2004****1. IDENTIFICATION**

The company was incorporated under the laws of Jamaica on August 6, 1993 and commenced trading on November 1, 1993. The company was listed on the Jamaica Stock Exchange in April 1994. However, effective May 9, 2003 the company was delisted from the Jamaica Stock Exchange.

The principal activities of the company are model agency representation; multi-media production, marketing in show promotion.

The registered office of the company is located at 38a Trafalgar Road, Kingston 10, Jamaica.

Except where otherwise stated, these financial statements are expressed in Jamaican Dollars.

2. SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of Preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Accounting Convention

These financial statements have been prepared under the historical cost convention.

(c) Use of Estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

(d) Revenue Recognition

Revenue is recognized on the accrual basis except for sponsorships in kind which is recorded as income, at estimated market value, when activities to be performed by the company in return for sponsorships have been substantially completed. Unexpired sponsorship represents, sponsorship revenue which have not yet been utilized.

(e) Other Operating Income

Included in other operating income is rental income of \$10,182,600 (2003 - \$7,836,538) for properties owned by a related company. The related expenses are included in the income statement.

(f) Equipment

(i) Equipment is carried at cost less accumulated depreciation.

(ii) Depreciation is charged on the assets from the date of acquisition.

(iii) Depreciation is provided on the straight line basis at such rates as will write off the cost of the various assets over the period of their expected useful lives. The useful lives approximate to five (5) years for equipment and ten (10) years for furniture, fixtures and motor cycle.

PULSE INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

2. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(g) **Income Taxes**

Income tax on profit for the year comprises current and deferred tax.

Provision is made for deferred taxation of current tax rates for temporary differences between profits computed for taxation purposes and profits stated in the financial statements.

Deferred tax is accounted for using the balance sheet liability method, in providing for temporary differences between the carrying amount of assets and liabilities for the financial reporting purposes and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the Income Statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

However, the company sustained a tax loss during the current year, and as a result no deferred tax is recognised in these financial statements, as deferred tax liability is not expected to crystallise in the future. (Note 11).

(h) **Amotisation of Trademarks**

Trademarks are amortised on the straight-line basis over a period of twenty five (25) years.

(i) **Foreign Currencies:**

(i) Foreign currency balances at the balance sheet date are translated at the rates of exchange ruling at that date.

(ii) Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

(iii) Gains/losses arising from fluctuations in exchange rates are included in the Income Statement.

(j) **Financial Instruments**

Financial instruments are included in these financial statements at amounts, which approximate their fair value.

(k) **Cash and Cash Equivalents**

The above represents current accounts held with banks net of bank overdraft.

PULSE INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

3. **TRADE AND OTHER RECEIVABLES COMPRISE:**

	<u>2004</u>	<u>2003</u>
	\$	\$
Trade	1,187,792	6,102,679
Other	<u>27,009,650</u>	<u>35,614,876</u>
Less: provision for doubtful debts	28,197,442 <u>(993,001)</u>	41,717,555 <u>(7,823,005)</u>
	<u>27,204,441</u>	<u>33,894,550</u>

4. **RELATED PARTY BALANCES AND TRANSACTIONS:**

- (a) Two parties are considered to be related if:
- (i) one party holds shares in the other and/or have significant influence on financial operating policy
 - (ii) both parties are subject to common control or significant influence from shareholders or Directors.

- (b) The balance sheet includes balances arising in the normal course of business, with related parties as follows:

	<u>2004</u>	<u>Restated</u> <u>2003</u>
	\$	\$
Owing by related party	<u>34,300,429</u>	<u>22,950,167</u>
Owing to related parties		
Directors	(7,400,933)	(3,493,173)
Samurai Investments Limited	<u>18,774,764</u>	<u>19,853,784</u>
	<u>11,373,831</u>	<u>16,360,611</u>

- (c) The income statement includes expenses incurred in transactions with related parties as follows:

Management fees	5,140,980	5,140,980
Rent	<u>2,400,000</u>	<u>2,400,000</u>

PULSE INVESTMENTS LIMITED
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

5. **EQUIPMENT COMPRISE:**

	<u>Furniture fixtures and equipment</u>	<u>Total</u>
	\$	\$
At cost:		
June 30, 2003	5,789,977	5,789,977
Additions	<u>282,088</u>	<u>282,088</u>
June 30, 2004	<u>6,072,065</u>	<u>6,072,065</u>
Depreciation:		
June 30, 2003	4,719,152	4,719,152
Charge for the year	167,731	167,731
Prior year	<u>(94,391)</u>	<u>(94,391)</u>
June 30, 2004	<u>4,792,792</u>	<u>4,792,492</u>
Net book values:		
June 30, 2004	<u>1,279,573</u>	<u>1,279,573</u>
June 30, 2003	<u>1,070,825</u>	<u>1,070,825</u>

6. **TRADEMARKS**

	\$
Cost:	
June 30, 2003	<u>6,000,000</u>
June 30, 2004	<u>6,000,000</u>
Accumulated Amortization:	
June 30, 2003	2,320,000
Amortization for the year	<u>240,000</u>
June 30, 2004	<u>2,560,000</u>
Carrying Value:	
June 30, 2004	<u>3,440,000</u>
June 30, 2003	<u>3,680,000</u>

PULSE INVESTMENTS LIMITED**NOTES TO FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2004****7. BANK OVERDRAFT**

The above represents the excess of unrepresented cheques over bank balances, as the company does not maintain an overdraft facility.

8. PAYABLES AND ACCRUALS COMPRISE:

	<u>2004</u>	<u>2003</u>
	\$	\$
Payables	776,143	1,159,155
Accruals	3,229,640	3,305,726
Other	<u>3,421,582</u>	<u>2,554,963</u>
	<u>7,427,365</u>	<u>7,019,844</u>

9. SHARE CAPITAL

	<u>2004</u>	<u>2003</u>
	\$	\$
Authorised:		
80,000,000 ordinary shares of 10¢ each	<u>8,000,000</u>	<u>8,000,000</u>
Issued and fully paid:		
31,549,768 ordinary stock units of 10¢ each	<u>3,154,977</u>	<u>3,154,977</u>

10. ADVANCES IN RESPECT OF RIGHTS ISSUE:

During the year ended June 30,1996, the company attempted to raise funds in the aggregate amount of \$9,070,558, by way of a rights issue in the ratio of one share for every eight shares held at a premium of \$2.20 per share. Due to the downturn in the quoted equities market and the uncertainty prevailing in the wider economy, the rights issue was not fully subscribed and was extended into the year ended June 30, 1997.

In that year, the rights issue was fully subscribed in the following manner:

- (i) The company collected \$4,949,178 by way of additional subscription to the rights issue;
- (ii) A Director assumed a bank overdraft of the company amounting to \$4,121,380 to be adjusted by allotment of ordinary shares under the rights issue at a premium of \$2.20 per share.

However the shares have not yet been allotted to the subscribers.

PULSE INVESTMENTS LIMITED**NOTES TO FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2004****11. INCOME TAXES**

- (a) The company was declared “a recognized motion picture producer” under the Motion Picture Industry (Encouragement) Act with effect from April 1995 and income earned from motion picture development activities are exempt from income tax.
- (b) Subject to the agreement of the Commissioner of Taxpayer Audit and Assessment, losses of approximately \$215,799,120 (2003 - \$146,341,725) are available to be set off against future taxable profits. This loss if not utilised, will be carried forward indefinitely.
- (c) Prior year tax adjustment represents over provision of tax expense in prior year.
- (d) The company has a potential deferred tax asset of approximately \$48,899,643 (2003 - \$48,854,895). This amount has not been recorded in these financial statements, as it is not probable that taxable profits will be available against which deductible temporary differences can be utilized. (Note 2g).

12. NET PROFIT FOR THE YEAR

Net profit for the year is stated after charging/(crediting):

	<u>2004</u>	<u>2003</u>
	\$	\$
Depreciation - current year	167,731	139,522
- prior year	(94,391)	(159,335)
Amortisation of trademarks	240,000	240,000
Auditors' remuneration	350,000	350,000
Gain on foreign exchange	<u>(165,441)</u>	<u>(77,900)</u>

13. PRIOR YEAR ADJUSTMENT

This represents adjustment for rental income.

14. CASH AND CASH EQUIVALENTS COMPRISE

	<u>2004</u>	<u>2003</u>
	\$	\$
Demand deposit	193,457	405,977
Less: bank overdraft	<u>(543,423)</u>	<u>(913,250)</u>
	<u>(349,966)</u>	<u>(507,273)</u>

15. RESTRUCTURING

By a resolution dated November 11, 1999, it was resolved that the operations, assets and liabilities of Pulse Investments Limited be merged with Pulse Entertainment Group and that the new entity shall be called Pulse Entertainment Group Limited. The merger process has not been completed.

PULSE INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

16. **FINANCIAL INSTRUMENTS**

(a) Fair Value

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable, willing parties in an arm's length transaction.

The carrying amounts for each class of financial instruments approximate their fair values due to the straight maturity of these instruments.

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

There are no significant concentrations of credit risk as the company's bank accounts are maintained with financial institutions considered to be stable and its debts are due from a diverse number of companies and individuals.

(c) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The company's current accounts are not subject to interest rate risk as funds are held in non-interest bearing accounts with no overdraft facilities.

(d) Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The currency giving rise to this risk is the United States Dollar.

The company is however, able to minimize this risk by maintaining foreign currency bank accounts.

Foreign currency exposure is as follows:

Assets:

	<u>2004</u>	<u>2003</u>
	<u>US\$</u>	<u>US\$</u>
Cash and cash equivalents	<u>3,177</u>	<u>755</u>