THE PALACE AMUSEMENT COMPANY (1921) LIMITED

Notes to the Financial Statements

30 June 2004

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1. Identification, Principal Activities and Related Party Transactions

The company and its subsidiaries (the Group) are limited liability companies, incorporated and resident in Jamaica and are cinema operators. The company is a 62% subsidiary of Russgram Investments Limited, which is also incorporated in Jamaica. The registered office of the company, its subsidiaries and Russgram Investments Limited, is 1 A South Camp Road, Kingston.

The company is a public listed company.

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 $81,623,000 (2003 - $72,745,000).

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 International Financial Reporting Standards, and have been prepared under the historical cost convention as modified by the revaluation of certain financial assets.

The preparation of financial statements in conformity with International Financial Reporting Standards 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. Although these estimates are based on managements best knowledge of current events and action, actual results could differ from those estimates.

(b) Consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus cost directly attributable to the acquisition. The excess of the cost is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between the group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

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) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated using the closing exchange rate. Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealised foreign exchange difference on unsettled foreign currency monetary assets and liabilities are recognised in the profit and loss account.

(d) Fixed assets and depreciation

Fixed assets are recorded at historical or deemed cost, less accumulated depreciation.

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. Land is not depreciated. The expected useful lives of the other fixed assets 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.

Repairs and maintenance expenses are charged to the profit and loss account during the financial period in which they are incurred.

(e) Impairment of non-current assets

Fixed assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identified cash flows.

(f) Investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

Purchases and sales of investments are recognised at trade date, which is the date that the company commits to purchase or sell the asset. The cost of purchase includes transaction costs.

Available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair values of listed equity securities are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are recognised at cost, less provision for impairment.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(g) 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 estimated selling price in the ordinary course of business, less the cost of selling expenses.

(h) Trade receivables

Trade receivables are carried at original invoiced amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the company will not collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the expected cash flows discounted at the market rate of interest for similar borrowings.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. 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.

(j) Payables

Payables are stated at historical cost.

(k) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings.

(l) Income taxes

Taxation expense in the profit and loss account comprises current and deferred tax charges.

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because taxable profits exclude items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at the balance sheet date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited in the profit and loss account, except where it relates to items charged or credited to equity, in which case deferred tax is also dealt with in equity.

Deferred income tax liabilities are not recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of subsidiaries as such amounts are permanently reinvested.

(m) Employee benefits

The Group operates defined benefit plans, the assets of which are generally held in a separate trustee-administered fund. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of the defined benefit plan is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the plan assets, together with adjustments for actuarial gains and losses and past service cost. The defined benefit obligation is determined annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the remaining service lives of the employees.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

(o) Revenue recognition

Group revenue comprises box office receipts, theatre confectionery sales, advertising and rental income, net of General Consumption Tax. Box office receipts and concession sales are recognised on collection. Advertising and rental income are recognised on an accrual basis in accordance with the substance of the underlying contracts.

(p) Segment reporting

Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in the other economic environments. Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

(q) Financial instruments

Financial instruments carried on the balance sheet include investments, long term receivables, cash and bank balances, trade receivables and payables, bank overdraft and long term liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The determination of the fair values of the company's financial instruments are discussed in Note 28.

(r) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. **Segment Reporting**

Primary reporting format - geographical segments:

	Kingston 2004 $'000	Montego Bay 2004 $'000	Mandeville 2004 $'000	Portmore 2004 $'000	Total 2004 $'000
Revenue	384,612	76,628	36,758	15,227	513,225
Segment result	69,180	1,132	(4,528)	1,267	67,051
Unallocated costs					(65,779)
Operating profit					1,272
Segment assets	122,174	76,221	49,813	516	248,724
Unallocated assets					125,113
Total assets					373,837
Segment liabilities	65,778	22,317	18,362	-	106,457
Unallocated liabilities					30,587
Total liabilities					137,044
Other segment items -					
Capital expenditure	19,820	155	3,982	88	24,045
Depreciation	12,440	10,016	5,500	90	28,046

	Kingston 2003 $'000	Montego Bay 2003 $'000	Mandeville 2003 $'000	Portmore 2003 $'000	Total 2003 $'000
Revenue	341,474	58,118	7,300	14,724	421,616
Segment result	65,166	(4,569)	519	1,589	62,705
Unallocated costs					(72,687)
Operating loss					(9,982)

Segment assets	114,024	85,869	51,272	509	251,674
Unallocated assets					107,723
Total assets					359,397
Segment liabilities	66,937	26,708	22,755	-	116,400
Unallocated liabilities					14,975
Total liabilities					131,375
Other segment items -					
Capital expenditure	1,810	3,764	51,835	69	57,478
Depreciation	12,744	9,920	836	87	23,587

Unallocated costs represent head office expenses. Segment assets comprise mainly fixed assets, inventories, receivables and operating cash, and mainly exclude other cash equivalents, taxation and investments. Segment liabilities comprise operating liabilities and exclude taxation and bank overdraft.

Secondary reporting format - business segments:

	2004	**2003**
	$'000	**$'000**
Box office receipts	291,064	241,298
Confectionery sales	120,593	99,503
Film exchange	90,653	69,763
Other activities	10,915	11,052
	513,225	421,616

Assets, liabilities, capital expenditure and depreciation cannot be separated into business segments due to the nature of the operations.

4. Results from Operations

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

	2004 $'000	2003 $'000
Auditors' remuneration	1,830	1,809
Cost of inventories recognised as expense	54,818	43,337
Depreciation	28,046	23,587
Directors' emoluments -		
Fees	661	497
Management remuneration	11,923	9,428
Gain on sale of fixed assets	(50)	(835)
Impairment charge for bad and doubtful debts	90	87
Repairs, maintenance and renewals	16,346	15,073
Staff costs (Note 5)	93,889	80,181

5. Staff Costs

	2004 $'000	2003 $'000
Wages and salaries	71,789	60,838
Statutory contributions	8,022	6,636
Pension	(804)	1,505
Other	14,882	11,202
	93,889	80,181

The Group employed 226 persons at the end of the year (2003 - 208).

6. Financial Income

	2004 $'000	2003 $'000
Interest income	10,589	9,692
Investment income	114	111
Foreign exchange gains, net	2,510	8,262
Interest expense	(5,768)	(6,048)
	7,445	12,017

7. Taxation Expense

Income tax is computed on profit for the year adjusted for tax purposes and comprises income tax at 33 1/3%:

	2004 $'000	2003 $'000
Current taxation	198	-
Deferred taxation	5,427	(1,421)
	5,625	(1,421)

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate of 33 1/3%, as follows:

	2004 $'000	2003 $'000
Profit before taxation	8,717	2,035
Tax calculated at a tax rate of 33 1/3%	2,906	678
Adjusted for the effect of:		
Income not subject to tax	-	(1,443)
Expenses not deductible for tax purposes	24	37
Other	2,695	(693)
	5,625	(1,421)

8. Net Profit and Retained Earnings Attributable to the Stockholders

	2004 $'000	2003 $'000
(a) Net profit is dealt with as follows in the financial statements of:		
The company	5,015	2,512
The subsidiaries	(1,951)	914
	3,064	3,426
	=======	=======
(b) Retained earnings are dealt with as follows in the financial statements of:		
The company	42,135	37,551
The subsidiaries	16,595	18,546
	58,730	56,097
	=======	=======

9. Earnings Per Stock Unit

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the number of ordinary shares in issue at year end.

	2004	2003
Net profit attributable to stockholders ($'000)	3,064	3,426
Number of ordinary stock units ('000)	1,437	1,437
Earnings per stock unit ($ per share)	2.13	2.38
	======	======

The company has no dilutive potential ordinary shares.

10. Dividends

On 5 April 2004, the company paid a dividend of $0.30 per share to registered shareholders as at 9 March 2004.

On 11 April 2003, the company paid a dividend of $0.20 per share to registered shareholders as at 11 March 2003.

11. Fixed Assets

The Group

	Freehold Land $'000	Theatre Buildings $'000	Other Buildings $'000	Leasehold Improvements $'000	Equipment, Fixtures & Motor Vehicles $'000	Total $'000
Cost -						
At 1 July 2003	2,110	75,017	1,183	61,509	204,096	343,915
Additions	17,859	-	-	1,542	4,644	24,045
Disposals	-	-	-	-	(157)	(157)
At 30 June 2004	19,969	75,017	1,183	63,051	208,583	367,803
Depreciation -						
At 1 July 2003	-	11,424	302	10,325	83,834	105,885
Charge for the year	-	1,871	28	5,871	20,276	28,046
On disposals	-	-	-	-	(150)	(150)
At 30 June 2004	-	13,295	330	16,196	103,960	133,781
Net Book Value -						
30 June 2004	19,969	61,722	853	46,855	104,623	234,022
30 June 2003	2,110	63,593	881	51,184	120,262	238,030

The Company

	Freehold Land $'000	Theatre Buildings $'000	Other Buildings $'000	Leasehold Improvements $'000	Equipment, Fixtures & Motor Vehicles $'000	Total $'000
Cost -						
At 1 July 2003	1,076	96	1,183	61,509	135,923	199,787
Additions	-	-	-	1,542	3,597	5,139
Disposals	-	-	-	-	(157)	(157)
At 30 June 2004	1,076	96	1,183	63,051	139,363	204,769
Depreciation -						
At 1 July 2003	-	26	302	10,325	40,250	50,903

Charge for the year	-	2	28	5,871	13,400	19,301
On disposals	-	-	-	-	(150)	(150)
At 30 June 2004	-	28	330	16,196	53,500	70,054
Net Book Value -						
30 June 2004	1,076	68	853	46,855	85,863	134,715
30 June 2003	1,076	70	881	51,184	95,673	148,884

Freehold land and buildings were revalued in 1972 and the revaluation surplus of $2,428,000 for the Group and $1,373,000 for the company was credited to capital reserve. The revalued amounts were designated the deemed cost of these assets at the date of revaluation, on adoption of International Financial Reporting Standards in 2002.

12. Long Term Receivables

	The Group & The Company	
	2004	2003
	$'000	$'000
Flick Holdings Limited	1,895	7,646
Less: Current portion (included in accounts receivable)	(1,895)	(5,798)
	-	1,848

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%.

13. Investments

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Quoted	8,210	3,989	4,814	1,792
Unquoted - Subsidiaries:				

Cinema Company of Jamaica Limited				
56,101 Ordinary shares	-	-	272	272
Harbour View Cinema Company Limited				
133,998 Ordinary shares	-	-	68	68
Tropical Cinema Company Limited				
116,296 Ordinary shares	-	-	145	145
	8,210	3,989	5,299	2,277

14. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 1/3%.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate offsetting are as follows:

	The Group		**The Company**	
	2004	**2003**	**2004**	**2003**
	$'000	**$'000**	**$'000**	**$'000**
Deferred tax assets	758	7,050	-	6,478
Deferred tax liabilities	(5,887)	(6,752)	(71)	-
	(5,129)	298	(71)	6,478

The movement in deferred taxation is as follows:

	The Group		**The Company**	
	2004	**2003**	**2004**	**2003**
	$'000	**$'000**	**$'000**	**$'000**
Balance at start of year	298	(1,123)	6,478	4,561
(Charge)/credit for the year (Note 7)	(5,427)	1,421	(6,549)	1,917
Balance at end of year	(5,129)	298	(71)	6,478

These amounts include the following, prior to offsetting of balances:

	The Group 2004 $'000	The Group 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Deferred tax assets to be recovered after more than 12 months	7,758	10,779	7,328	10,051
Deferred tax liabilities to be settled after more than 12 months	(15,045)	(12,929)	(9,259)	(6,054)

The movement in deferred tax assets and liabilities, prior to offsetting of balances, is as follows:

Deferred tax assets

The Group	Provisions $'000	Tax loss carry forwards $'000	Total $'000
At 1 July 2003	2,875	12,793	15,668
Charge for the year	-	(4,889)	(4,889)
At 30 June 2004	2,875	7,904	10,779

Deferred tax liabilities

	Accelerated depreciation $'000	Pension surplus $'000	Unrealised foreign exchange gains $'000	Interest receivable $'000	Total $'000
At 1 July 2003	11,834	1,628	1,684	224	15,370
Charge/(credit) for the year	(532)	2,115	(847)	(198)	538
At 30 June 2004	11,302	3,743	837	26	15,908

The Company

Deferred tax assets

	Provisions $'000	Tax loss carry forwards $'000	Total $'000
At 1 July 2003	2,875	11,565	14,440
Charge for the year	-	(4,389)	(4,389)
At 30 June 2004	2,875	7,176	10,051

Deferred tax liabilities

	Accelerated depreciation $'000	Pension surplus $'000	Unrealised foreign exchange gains $'000	Interest receivable $'000	Total $'000
At 1 July 2003	4,426	1,628	1,684	224	7,962
Charge/(credit) for the year	1,090	2,115	(847)	(198)	2,160
At 30 June 2004	5,516	3,743	837	26	10,122

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable periods is probable. Subject to agreement with the Taxpayer Audit and Assessment Department, losses of approximately $23,712,000 for the Group and $21,528,000 for the company (2003 - $38,379,000 and $34,695,000 respectively) are available for set off against future profits and may be carried forward indefinitely.

15. Pension Obligations

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

The defined benefit asset was determined as follows:

	2004 $'000	2003 $'000
Fair value of plan assets	83,673	52,187
Present value of obligations	(55,100)	(46,769)
	28,573	5,418
Unrecognised actuarial gain	(23,657)	(4,559)
	4,916	859

The movement in the defined benefit asset during the year is as follows:

	2004 $'000	2003 $'000
At beginning of year	859	(1,719)
Amounts recognised in the income statement	(626)	(1,092)
Contributions paid	4,683	3,670
At end of year	4,916	859

The amounts recognised in the income statement in staff costs are as follows:

	2004 $'000	2003 $'000
Current service cost	(2,567)	(2,220)
Employee contributions	2,781	2,470
	214	250
Interest cost	(6,103)	(5,248)
Expected return on plan assets	5,263	3,906
	(626)	(1,092)
Actual return on plan assets	25,051	8,155

The principal actuarial assumptions used were as follows:

	2004 $'000	2003 $'000
Discount rate	12.5%	12.5%
Long term inflation rate	7%	7%
Expected return on plan assets	9.5%	9.5%
Future salary increases	9%	9%
Future pension increases	Nil	Nil

(b) The company participates in a defined benefit scheme which is open to all permanent cinema employees and 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.

The defined benefit asset was determined as follows:

	2004 $'000	2003 $'000
Fair value of plan assets	20,381	12,975
Present value of obligations	(10,915)	(7,702)
	9,466	5,273
Unrecognised actuarial (gain)/loss	(264)	2,947
	9,202	8,220
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	(2,888)	(4,196)
	6,314	4,024

The movement in the defined benefit asset during the year is as follows:

	2004 $'000	2003 $'000
At beginning of year	4,024	3,616
Amounts recognised in the income statement	1,430	(413)
Contributions paid	860	821
At end of year	6,314	4,024

The amounts recognised in the income statement in staff costs are as follows:

	2004 $'000	2003 $'000
Current service cost	(1,281)	(609)
Employee contributions	834	425
	(447)	(184)
Interest cost	(950)	(741)
Actuarial loss recognised during the year	(59)	(20)
Expected return on plan assets	1,578	1,367
Change in surplus not eligible for recognition due to limitation	1,308	(835)
	1,430	(413)
Actual return on plan assets	5,931	687

The principal actuarial assumptions used were as follows:

	2004 $'000	2003 $'000
Discount rate	12.5%	12.5%
Long term inflation rate	7%	7%
Expected return on plan assets	12.5%	12.5%
Future salary increases	10%	10%
Future pension increases	4%	4%

16. Due from Subsidiary Companies

This represents the year end balance arising mainly from the Group's centralised treasury function. The subsidiaries conduct all transactions through their current account with the Holding Company.

17. Inventories

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Cinemas	2,521	2,361	1,727	1,503
General stores	12,136	9,750	12,136	9,750
Other	227	1,738	227	1,738
	14,884	13,849	14,090	12,991
Less: Provision for obsolescence	(182)	(205)	(182)	(205)
	14,702	13,644	13,908	12,786

18. Accounts Receivable

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Trade	8,446	10,728	8,445	10,727
Prepayments	2,149	2,029	2,149	2,029
Other	1,912	6,605	1,912	6,605
	12,507	19,362	12,506	19,361

19. Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Cash at bank and in hand	19,269	13,173	18,529	12,853
Short term deposits	61,894	50,777	61,894	50,777
	81,163	63,950	80,423	63,630
Bank overdraft (Note 21)	(23,318)	(7,827)	(23,318)	(7,827)
	57,845	56,123	57,105	55,803

The weighted average interest rate on short term deposits was 14% (2003 - 18%) and these deposits have an average maturity of 30 days.

20. Accounts Payable

	The Group		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Trade payables	33,061	32,822	27,070	27,339
Other payables and accruals	25,931	23,044	22,149	18,913
	58,992	55,866	49,219	46,252
	=======	=======	=======	=======

Trade payables include $15,441,000 (2003 - $13,141,000) payable to Russgram Investments Limited in respect of film hireage expenses.

Other payables include a provision of $9,919,000 inclusive of General Consumption Tax for outstanding commission on the sale of the Odeon Complex (Note 26).

21. Borrowings

	The Group & The Company	
	2004	2003
	$'000	$'000
Bank overdraft	23,318	7,827
Long term liabilities	47,465	60,534
	70,783	68,361
	=======	=======

(a) Bank overdraft

The company has a bank overdraft facility totalling $20,000,000, which attracts interest at 23.75% (2003 - 23.75%) and is immediately rate sensitive. The facility is partially secured by Government of Jamaica Local Registered Stock of $10 million held with RBTT Bank Jamaica Limited.

(b) Long term liabilities

	The Group & The Company 2004 $'000	2003 $'000
(i) Development Bank of Jamaica Limited	6,786	11,071
(ii) Development Bank of Jamaica Limited	22,317	26,708
(iii) Private Export Funding Corporation	18,362	22,755
	47,465	60,534
Less: Current portion	(13,922)	(13,732)
	33,543	46,802

(i) This loan attracts interest at a rate of 13% and is repayable by January 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.

(ii) This loan attracts interest at a rate of 13% and is repayable by July 2009. The loan is secured by a first mortgage over the Carib Cinema.

(iii) This loan attracts interest at a rate of LIBOR + 3.5% and is repayable by November 2007. The loan is secured by promissory notes to the value of the loan.

The aggregate amount of principal repayments required in each of the next six financial years is as follows:

	$'000
2005	13,922
2006	12,136
2007	9,636
2008	7,013
2009	4,390
2010	368
	47,465

22. Share Capital

	2004 $'000	2003 $'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

23. Capital Reserve

	The Group		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Surplus on assets carried at deemed cost	2,428	2,428	1,373	1,373
Realised capital gains	163,868	163,868	146,992	146,992
Reserve on consolidation	389	389	-	-
	166,685	166,685	148,365	148,365

24. Fair Value Reserve

This represents the unrealised surplus on revaluation of investments.

25. Cash Provided By Operating Activities

	2004 $'000	2003 $'000
Net profit	3,064	3,426
Items not affecting cash resources:		
Depreciation	28,046	23,587
Gain on sale of fixed assets	(50)	(835)
Interest income	(10,589)	(9,692)
Investment income	(114)	(111)
Exchange gain on foreign balances	(515)	(4,686)

	2004	2003
Interest expense	5,768	6,048
Taxation expense	5,625	(1,421)
Minority interest in results of the year	28	30
	31,263	16,346
Changes in operating assets and liabilities:		
Inventories	(1,058)	(3,717)
Accounts receivable	2,356	(1,947)
Pension surplus	(6,347)	(2,986)
Accounts payable	3,126	14,177
	29,340	21,873
Withholding tax paid	(1,927)	(1,480)
Cash provided by operating activities	27,413	20,393
	=======	=======

26. Provisions

C. D. Alexander Company Realty Limited 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 Courts have laid down a preliminary ruling stating that the company will be held liable for the commission and, as such, a provision has been made in these financial statements for that amount. This provision has been included in other payables (Note 20). The Company is appealing the ruling.

27. Financial Risk Management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the Group by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is primarily exposed to such risks arising from its US Dollar transactions for purchases, US Dollar cash and bank balances, US Dollar long term receivables and US Dollar long term liabilities. The balance sheet at 30 June 2004 includes aggregate net foreign assets of approximately US$210,000 (2003 - US$273,000), in respect of such transactions.

(b) 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. At 30 June 2004, the Group's operating cash flows are substantially independent of changes in market interest rates. However, the Group has interest-bearing assets as disclosed in Notes 12 and 19, and interest-bearing liabilities as disclosed in Note 21.

(c) Market risk
Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. At 30 June 2004, the Group had no significant exposure to such risks.

(d) 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. The Group has no significant concentrations of credit risk as the Group has a large and diverse customer base, with no significant balances arising from any single economic or business sector, or any single entity or group of entities. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions.

(e) Liquidity risk
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, management aims at maintaining flexibility in funding by keeping committed credit lines available.

(f) Cash flow risk
Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The Group manages this risk by ensuring, as far as possible, that financial assets and liabilities are matched to mitigate any significant adverse cash flows.

28. Fair Values of Financial Instruments

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. 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.

The fair values of the Group's financial instruments were estimated as follows:

The face value, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These financial assets and liabilities are cash and bank balances, trade receivables and payables, and bank overdraft.

Long term receivables and long term liabilities
The long term receivables and the long term liabilities attract interest at prevailing market rates. The carrying values of these instruments closely approximate amortised cost, and are estimated to be their fair value as they attract terms and conditions available in the market for similar transactions.

Investments
The estimated fair value of quoted equity securities are determined by reference to quoted bid prices on the Stock Exchange. The fair value of unquoted securities could not be reasonably determined as there is no active market for these securities.