The Palace Amusement Company (1921) Limited

Financial Statements
30 June 2005

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30 September 2005

To the Members of
The Palace Amusement Company (1921) Limited

Auditors' Report

We have audited the financial statements set out on pages 1 to 27, and have received 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 affairs of the company and the group as at 30 June 2005 and of the results of operations and cash flows of the group, and changes in equity of the group and the company for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

The Palace Amusement Company (1921) Limited

Group Profit and Loss Account

Year ended 30 June 2005

	Note	2005 $'000	2004 $'000
Revenue	3	433,499	513,225
Direct expenses		(362,768)	(420,791)
Gross Profit		70,731	92,434
Other operating income		36,352	7,012
Administration expenses		(94,055)	(93,825)
Other operating expenses		(5,119)	(4,349)
Operating Profit	4	7,909	1,272
Financial (expense)/income, net	6	(556)	7,445
Profit before Taxation		7,353	8,717
Taxation	7	4,919	(5,625)
Profit before Minority Interest		12,272	3,092
Minority interest in results of subsidiaries		(4,602)	(28)
NET PROFIT ATTRIBUTABLE TO STOCKHOLDERS	8	7,670	3,064
Earnings per Stock Unit	9	$5.34	$2.13

The Palace Amusement Company (1921) Limited

Group Balance Sheet

30 June 2005

	Note	2005 $'000	2004 $'000
Non-Current Assets			
Fixed assets	11	212,804	234,022
Investments	12	10,656	8,210
Deferred tax assets	13	3,916	758
Pension surplus	14	20,501	11,230
Current Assets			
Inventories	16	15,733	14,702
Accounts receivable	17	22,988	12,507
Taxation recoverable		9,136	8,370
Cash and bank balances	18	56,540	81,163
		104,397	116,742
Current Liabilities			
Accounts payable	19	51,830	58,992
Current portion of long term liabilities	20	12,190	13,922
Bank overdraft	20	12,910	23,318
		76,930	96,232
Net Current Assets		27,467	20,510
		275,344	274,730
Stockholders' Equity			
Share capital	21	1,437	1,437
Capital reserve	22	166,685	166,685
Fair value reserve	23	10,470	8,024
Retained earnings		66,113	58,730
		244,705	234,876
Non-Current Liabilities			
Long term liabilities	20	21,487	33,543
Deferred tax liabilities	13	4,126	5,887
Minority interest		5,026	424
		275,344	274,730

Approved for issue on behalf of the Board of Directors on 30 September 2005 and signed on its behalf by:

Douglas Graham	Director	Lloyd Alberga	Director

The Palace Amusement Company (1921) Limited

Group Statement of Changes in Equity

Year ended 30 June 2005

	Number of Shares	Share Capital	Capital Reserve	Fair Value Reserve	Retained Earnings	Total
	'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2003	1,437	1,437	166,685	3,803	56,097	228,022
Net profit	-	-	-	-	3,064	3,064
Increase in fair value of investments	-	-	-	4,221	-	4,221
Dividend paid (Note 10)	-	-	-	-	(431)	(431)
Balance at 30 June 2004	1,437	1,437	166,685	8,024	58,730	234,876
Net profit	-	-	-	-	7,670	7,670
Increase in fair value of investments	-	-	-	2,446	-	2,446
Dividend paid (Note 10)	-	-	-	-	(287)	(287)
Balance at 30 June 2005	1,437	1,437	166,685	10,470	66,113	244,705

The Palace Amusement Company (1921) Limited

Group Statement of Cash Flows

Year ended 30 June 2005

	2005 $'000	2004 $'000
Cash Flows from Operating activities		
Cash provided by operating activities (Note 24)	11,033	27,413
Cash Flows from Investing Activities		
Purchase of fixed assets	(8,185)	(24,045)
Proceeds from sale of fixed assets	-	57
Long term receivables received	1,895	5,798
Interest received	3,690	11,185
Dividend received	104	114
Cash used in investing activities	(2,496)	(6,891)
Cash Flows from Financing Activities		
Long term loans repaid	(13,922)	(13,732)
Interest paid	(9,047)	(5,768)
Dividends paid	(287)	(431)
Cash used in financing activities	(23,256)	(19,931)
	(14,719)	591
Exchange gain on foreign cash balances	504	1,131
(Decrease)/increase in cash and cash equivalents	(14,215)	1,722
Cash and cash equivalents at beginning of year	57,845	56,123
CASH AND CASH EQUIVALENTS AT END OF YEAR	43,630	57,845

The Palace Amusement Company (1921) Limited

Company Balance Sheet

30 June 2005

	Note	2005 $'000	2004 $'000
Non-Current Assets			
Fixed assets	11	120,439	134,715
Investments	12	5,039	5,299
Deferred tax assets	13	3,427	-
Pension surplus	14	20,501	11,230
Due from subsidiary companies	15	43,059	50,135
Current Assets			
Inventories	16	15,048	13,908
Accounts receivable	17	8,713	12,506
Taxation recoverable		9,206	8,440
Cash and bank balances	18	56,010	80,423
		88,977	115,277
Current Liabilities			
Accounts payable	19	42,387	49,219
Current portion of long term liabilities	20	12,190	13,922
Bank overdraft	20	12,910	23,318
		67,487	86,459
Net Current Assets		21,490	28,818
		213,955	230,197
Shareholders' Equity			
Share capital	21	1,437	1,437
Capital reserve	22	148,365	148,365
Fair value reserve	23	4,386	4,646
Retained earnings		38,280	42,135
		192,468	196,583
Non-Current Liabilities			
Long term liabilities	20	21,487	33,543
Deferred tax liabilities	13	-	71
		213,955	230,197

Approved for issue on behalf of the Board of Directors on 30 September 2005 and signed on its behalf by:

Douglas Graham Director

Lloyd Alberga Director

The Palace Amusement Company (1921) Limited

Company Statement of Changes in Equity

Year ended 30 June 2005

	Number of Shares	Share Capital	Capital Reserve	Fair Value Reserve	Retained Earnings	Total
	'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2003	1,437	1,437	148,365	1,624	37,551	188,977
Net profit	-	-	-	-	5,015	5,015
Increase in fair value of investments	-	-	-	3,022	-	3,022
Dividends paid (Note 10)	-	-	-	-	(431)	(431)
Balance at 30 June 2004	1,437	1,437	148,365	4,646	42,135	196,583
Net loss	-	-	-	-	(3,568)	(3,568)
Decrease in fair value of investments	-	-	-	(260)	-	(260)
Dividends paid (Note 10)	-	-	-	-	(287)	(287)
Balance at 30 June 2005	1,437	1,437	148,365	4,386	38,280	192,468

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2005

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 1A 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 $70,317,000 (2004 – $81,623,000).

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%

2. Significant Accounting Policies (Continued)

(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.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2005

2. Significant Accounting Policies (Continued)

(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.

2. Significant Accounting Policies (Continued)

(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 27.

(r) Comparative information

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

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2005

3. Segment Reporting

Primary reporting format – geographical segments:

	Kingston 2005 $'000	Montego Bay 2005 $'000	Mandeville 2005 $'000	Portmore 2005 $'000	Total 2005 $'000
Revenue	318,132	76,582	28,739	10,046	433,499
Segment result	84,356	(1,475)	(8,559)	(1,761)	72,561
Unallocated costs					(64,652)
Operating profit					7,909
Segment assets	114,899	67,596	45,236	806	228,537
Unallocated assets					123,737
Total assets					352,274
Segment liabilities	54,330	17,927	13,250	-	85,507
Unallocated liabilities					22,301
Total liabilities					107,808
Other segment items –					
Capital expenditure	5,371	1,355	1,024	435	8,185
Depreciation	13,640	10,033	5,611	119	29,403

	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 loss					1,272
Segment assets	122,174	76,221	49,813	516	248,724
Unallocated assets					122,238
Total assets					370,962
Segment liabilities	65,778	22,317	18,362	-	106,457
Unallocated liabilities					29,629
Total liabilities					136,086
Other segment items –					
Capital expenditure	19,820	155	3,982	88	24,045
Depreciation	12,440	10,016	5,500	90	28,046

The Palace Amusement Company (1921) Limited
Notes to the Financial Statements
30 June 2005

3. Segment Reporting (Continued)

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:

	2005 $'000	2004 $'000
Box office receipts	245,066	291,064
Confectionery sales	106,459	120,593
Film exchange	69,242	90,653
Other activities	12,732	10,915
	433,499	513,225

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

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2005

4. Results from Operations

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

	2005 $'000	2004 $'000
Auditors' remuneration	1,890	1,830
Cost of inventories recognised as expense	48,838	54,818
Depreciation	29,403	28,046
Directors' emoluments -		
Fees	854	908
Management remuneration	13,625	11,923
Gain on sale of fixed assets	-	(50)
Impairment charge for bad and doubtful debts	36	90
Proceeds from insurance claim	(29,348)	-
Repairs, maintenance and renewals	12,535	16,346
Staff costs (Note 5)	88,107	93,889

5. Staff Costs

	2005 $'000	2004 $'000
Wages and salaries	70,593	71,789
Statutory contributions	8,001	8,022
Pension	(5,183)	(804)
Other	14,696	14,882
	88,107	93,889

The Group employed 192 persons at the end of the year (2004 – 226).

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2005

6. Financial (Expense)/Income

	2005 $'000	2004 $'000
Interest income	3,877	10,589
Investment income	104	114
Foreign exchange gains, net	4,510	2,510
Interest expense	(9,047)	(5,768)
	(556)	7,445

7. Taxation Expense

Income tax is computed on the profit for the year adjusted for tax purposes and comprises income tax at 33⅓%:

	2005 $'000	2004 $'000
Current taxation	-	198
Deferred taxation	(4,919)	5,427
	(4,919)	5,625

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate of 33⅓%, as follows:

	2005 $'000	2004 $'000
Profit before taxation	7,353	8,717
Tax calculated at a tax rate of 33⅓%	2,451	2,906
Adjusted for the effect of:		
Insurance recoveries not subject to tax	(7,968)	-
Expenses not deductible for tax purposes	116	24
Other	482	2,695
	(4,919)	5,625

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2005

8. sNet Profit and Retained Earnings Attributable to the Stockholders

		2005 $'000	2004 $'000
(a)	Net profit is dealt with as follows in the financial statements of:		
	The company	(3,568)	5,015
	The subsidiaries	11,238	(1,951)
		7,670	3,064
(b)	Retained earnings are dealt with as follows in the financial statements of:		
	The company	38,280	42,135
	The subsidiaries	27,833	16,595
		66,113	58,730

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.

	2005	2004
Net profit attributable to stockholders ($'000)	7,670	3,064
Number of ordinary stock units ('000)	1,437	1,437
Earnings per stock unit ($ per share)	5.34	2.13

The company has no dilutive potential ordinary shares.

10. Dividends

On 11 April 2005, the company paid a dividend of $0.20 per share to registered shareholders as at 8 March 2005.

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

The Palace Amusement Company (1921) Limited
Notes to the Financial Statements
30 June 2005

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 2004	19,969	75,017	1,183	63,051	208,583	367,803
Additions	-	-	-	-	8,185	8,185
Charge for impairment	-	(2,563)	-	-	(11,687)	(14,250)
At 30 June 2005	19,969	72,454	1,183	63,051	205,081	361,738
Depreciation -						
At 1 July 2004	-	13,295	330	16,196	103,960	133,781
Charge for the year	-	4,100	28	5,887	19,388	29,403
Charge for impairment	-	(2,563)	-	-	(11,687)	(14,250)
At 30 June 2005	-	14,832	358	22,083	111,661	148,934
Net Book Value -						
30 June 2005	19,969	57,622	825	40,968	93,420	212,804
30 June 2004	19,969	61,722	853	46,855	104,623	234,022

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 2004	1,076	96	1,183	63,051	139,363	204,769
Additions	-	-	-	-	5,322	5,322
At 30 June 2005	1,076	96	1,183	63,051	144,685	210,091
Depreciation -						
At 1 July 2004	-	28	330	16,196	53,500	70,054
Charge for the year	-	2	28	5,887	13,681	19,598
At 30 June 2005	-	30	358	22,083	67,181	89,652
Net Book Value -						
30 June 2005	1,076	66	825	40,968	77,504	120,439
30 June 2004	1,076	68	853	46,855	85,863	134,715

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 Reporting Standards in 2002.

In September 2004, certain fixed assets located at the Harbour View Drive-In cinema were destroyed by hurricane. As such, these assets were deemed fully impaired at that date, and written off the books of the Group.

The Palace Amusement Company (1921) Limited
Notes to the Financial Statements
30 June 2005

12. Investments

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Quoted	10,656	8,210	4,554	4,814
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
	10,656	8,210	5,039	5,299

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2005

13. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33⅓%.

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	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Deferred tax assets	3,916	758	3,427	-
Deferred tax liabilities	(4,126)	(5,887)	-	(71)
	(210)	(5,129)	3,427	(71)

The movement in deferred taxation is as follows:

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Balance at start of year	(5,129)	298	(71)	6,478
(Charge)/credit for the year (Note 7)	4,919	(5,427)	3,498	(6,549)
Balance at end of year	(210)	(5,129)	3,427	(71)

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Deferred tax assets to be recovered after more than 12 months	14,432	7,758	14,006	7,328
Deferred tax liabilities to be settled after more than 12 months	(15,546)	(15,045)	(10,900)	(9,259)

The Palace Amusement Company (1921) Limited
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13. Deferred Income Taxes (Continued)

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

The Group

Deferred tax assets

	Provisions $'000	Tax loss carry forwards $'000	Total $'000
At 1 July 2004	2,875	7,904	10,779
Credit for the year	1,515	3,094	4,609
At 30 June 2005	4,390	10,998	15,388

Deferred tax liabilities

	Accelerated depreciation $'000	Pension surplus $'000	Unrealised foreign exchange gains $'000	Interest receivable $'000	Total $'000
At 1 July 2004	11,302	3,743	837	26	15,908
Charge/(credit) for the year	(3,035)	3,091	(428)	62	(310)
At 30 June 2005	8,267	6,834	409	88	15,598

The Company

Deferred tax assets

	Provisions $'000	Tax loss carry forwards $'000	Total $'000
At 1 July 2004	2,875	7,176	10,051
Credit for the year	1,515	3,259	4,774
At 30 June 2005	4,390	10,435	14,825

Deferred tax liabilities

	Accelerated depreciation $'000	Pension surplus $'000	Unrealised foreign exchange gains $'000	Interest receivable $'000	Total $'000
At 1 July 2004	5,516	3,743	837	26	10,122
Charge/(credit) for the year	(1,449)	3,091	(428)	62	1,276
At 30 June 2005	4,067	6,834	409	88	11,398

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 $32,994,000 for the Group and $31,305,000 for the company (2004 – $23,712,000 and $21,528,000 respectively) are available for set off against future profits and may be carried forward indefinitely.

The Palace Amusement Company (1921) Limited
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14. 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:

	2005 $'000	2004 $'000
Fair value of plan assets	103,805	83,673
Present value of obligations	(63,857)	(55,100)
	39,948	28,573
Unrecognised actuarial gain	(30,179)	(23,657)
	9,769	4,916

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

	2005 $'000	2004 $'000
At beginning of year	4,916	859
Amounts recognised in the income statement	1,745	(626)
Contributions paid	3,108	4,683
At end of year	9,769	4,916

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

	2005 $'000	2004 $'000
Current service cost	(2,271)	(2,567)
Employee contributions	2,233	2,781
	(38)	214
Interest cost	(7,093)	(6,103)
Expected return on plan assets	8,169	5,263
Actuarial gain recognised during the year	707	-
	1,745	(626)
Actual return on plan assets	16,038	25,051

The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate	12.5%	12.5%
Long term inflation rate	8%	7%
Expected return on plan assets	9.5%	9.5%
Future salary increases	9%	9%
Future pension increases	Nil	Nil

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2005

14. Pension Obligations (Continued)

(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:

	2005 $'000	**2004 $'000**
Fair value of plan assets	25,818	20,381
Present value of obligations	(12,371)	(10,915)
	13,447	9,466
Unrecognised actuarial gain	(2,715)	(264)
	10,732	9,202
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	-	(2,888)
	10,732	6,314

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

	2005 $'000	**2004 $'000**
At beginning of year	6,314	4,024
Amounts recognised in the income statement	3,438	1,430
Contributions paid	980	860
At end of year	10,732	6,314

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

	2005 $'000	**2004 $'000**
Current service cost	(1,635)	(1,281)
Employee contributions	938	834
	(697)	(447)
Interest cost	(1,243)	(950)
Actuarial loss recognised during the year	-	(59)
Expected return on plan assets	2,490	1,578
Change in surplus not eligible for recognition due to limitation	2,888	1,308
	3,438	1,430
Actual return on plan assets	5,247	5,931

The principal actuarial assumptions used were as follows:

	2005	**2004**
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%

The Palace Amusement Company (1921) Limited

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15. 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.

16. Inventories

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Cinemas	2,149	2,521	1,464	1,727
General stores	13,497	12,136	13,497	12,136
Other	269	227	269	227
	15,915	14,884	15,230	14,090
Less: Provision for obsolescence	(182)	(182)	(182)	(182)
	15,733	14,702	15,048	13,908

17. Accounts Receivable

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Trade	5,552	8,446	5,552	8,445
Prepayments	2,297	2,149	2,297	2,149
Insurance claim	14,254	-	-	-
Other	885	1,912	864	1,912
	22,988	12,507	8,713	12,506

18. Cash and Cash Equivalents

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

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Cash at bank and in hand	3,081	19,269	2,551	18,529
Short term deposits	53,459	61,894	53,459	61,894
	56,540	81,163	56,010	80,423
Bank overdraft (Note 20)	(12,910)	(23,318)	(12,910)	(23,318)
	43,630	57,845	43,100	57,105

The weighted average interest rate on short term deposits was 12.5% (2004 – 14%) and these deposits have an average maturity of 30 days.

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19. Accounts Payable

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Trade payables	20,063	33,061	14,073	27,070
Other payables and accruals	31,767	25,931	28,314	22,149
	51,830	58,992	42,387	49,219

Trade payables include $6,124,000 (2004 - $15,441,000) payable to Russgram Investments Limited in respect of film hireage expenses.

Other payables include a provision of $14,464,000 inclusive of General Consumption Tax and interest for outstanding commission on the sale of the Odeon Complex (Note 25).

20. Borrowings

	The Group & The Company	
	2005 $'000	2004 $'000
Bank overdraft	12,910	23,318
Long term liabilities	33,677	47,465
	46,587	70,783

(a) Bank overdraft

The company has a bank overdraft facility totalling $20,000,000 which attracts interest at 20.75% (2004 – 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	
	2005 $'000	2004 $'000
(i) Development Bank of Jamaica Limited	2,500	6,786
(ii) Development Bank of Jamaica Limited	17,927	22,317
(iii) Private Export Funding Corporation (US$ - 214,244 (2004 - 299,941))	13,250	18,362
	33,677	47,465
Less: Current portion	(12,190)	(13,922)
	21,487	33,543

20. Borrowings (Continued)

(b) Long term liabilities (continued)

(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 May 2008. 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 five financial years is as follows:

	$'000
2006	12,190
2007	9,690
2008	7,040
2009	4,390
2010	367
	33,677

21. Share Capital

	2005 $'000	2004 $'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

22. Capital Reserve

	The Group		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'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

23. Fair Value Reserve

This represents the unrealised surplus on revaluation of investments.

24. Cash Provided By Operating Activities

	2005 $'000	2004 $'000
Net profit	7,670	3,064
Items not affecting cash resources:		
Depreciation	29,403	28,046
Gain on sale of fixed assets	-	(50)
Interest income	(3,877)	(10,589)
Investment income	(104)	(114)
Exchange gain on foreign balances	(369)	(515)
Interest expense	9,047	5,768
Taxation expense	(4,919)	5,625
Minority interest in results of the year	4,602	28
	41,453	31,263
Changes in operating assets and liabilities:		
Inventories	(1,031)	(1,058)
Accounts receivable	(12,189)	2,356
Pension surplus	(9,271)	(6,347)
Accounts payable	(7,162)	3,126
	11,800	29,340
Taxation withheld	(767)	(1,927)
Cash provided by operating activities	11,033	27,413

25. 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 plus interest. This provision has been included in other payables (Note 19). The company appealed the ruling and was denied. The company is now taking advice as to the most appropriate course of action.

26. 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 2005 includes aggregate net foreign assets of approximately US$488,000 (2004 – US$210,000), 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 2005, 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 Note 18, and interest-bearing liabilities as disclosed in Note 20.

(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 2005, 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.

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

Investments
The estimated fair values 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.