

**The Palace Amusement Company  
(1921) Limited**

**Financial Statements  
30 June 2006**

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# The Palace Amusement Company (1921) Limited

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30 June 2006

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**Financial Statements**

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22 September 2006

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

### Auditors' Report

We have audited the accompanying consolidated balance sheet of Palace Amusement Company (1921) Limited and its subsidiaries ("the group") as at 30 June 2006 and the related consolidated profit and loss account, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and the accompanying balance sheet of Palace Amusement Company (1921) Limited standing alone as at 30 June 2006. We have received all the information and explanations which we considered necessary. These financial statements set out on pages 1 to 31 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 accompanying financial statements, which are in agreement therewith, give a true and fair view of the financial position of the group and the company as at 30 June 2006, and of the results of operations, changes in equity and cash flows of the group 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.



Chartered Accountants  
Kingston, Jamaica

# The Palace Amusement Company (1921) Limited

Group Profit and Loss Account

Year ended 30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
<b>Revenue</b>	5	355,148	378,202
Direct expenses		(293,363)	( 310,282)
<b>Gross Profit</b>		61,785	67,920
Other operating income	6	36,137	47,654
Administration expenses		(98,474)	(94,055)
Other operating expenses		(5,483)	(5,119)
<b>Operating (Loss)/Profit</b>		(6,035)	16,400
Finance costs – interest expense		(3,631)	(9,047)
<b>(Loss)/Profit before Taxation</b>		(9,666)	7,353
Taxation	9	3,038	4,919
<b>NET (LOSS)/PROFIT</b>		(6,628)	12,272
<b>Attributable to:</b>			
Stockholders of the company	10	(6,348)	7,670
Minority interest		( 280)	4,602
		(6,628)	12,272
<b>Earnings per Stock Unit Attributable to Stockholders of the Company</b>	11	(\$4.42)	\$5.34

# The Palace Amusement Company (1921) Limited

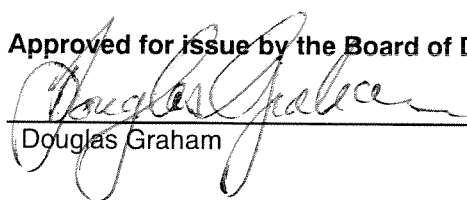
Group Balance Sheet

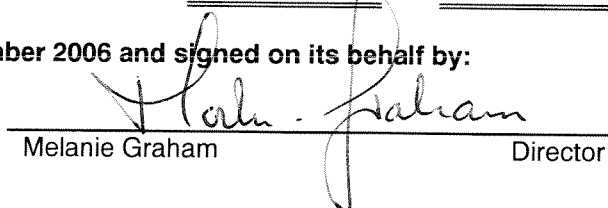
30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
<b>Non-Current Assets</b>			
Fixed assets	13	188,851	212,804
Investments	14	7,737	10,656
Deferred tax assets	15	5,138	3,916
Pension surplus	16	25,600	20,501
<b>Current Assets</b>			
Inventories	18	13,363	15,733
Accounts receivable	19	14,146	22,724
Taxation recoverable		9,737	9,136
Cash and bank balances	20	47,863	56,804
		85,109	104,397
<b>Current Liabilities</b>			
Accounts payable	21	29,437	51,830
Current portion of long term liabilities	22	10,049	12,190
Bank overdraft	22	18,479	12,910
		57,965	76,930
<b>Net Current Assets</b>			
		27,144	27,467
		254,470	275,344
<b>Stockholders' Equity</b>			
Share capital	23	1,437	1,437
Capital reserve	24	166,685	166,685
Fair value reserve	25	7,551	10,470
Retained earnings		59,765	66,113
		235,438	244,705
<b>Minority Interest</b>			
		4,746	5,026
		240,184	249,731
<b>Non-Current Liabilities</b>			
Long term liabilities	22	11,976	21,487
Deferred tax liabilities	15	2,310	4,126
		254,470	275,344

Approved for issue by the Board of Directors on 22 September 2006 and signed on its behalf by:

  
 Douglas Graham  
 Director

  
 Melanie Graham  
 Director

# The Palace Amusement Company (1921) Limited

Group Statement of Changes in Equity

Year ended 30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Attributable to the Company's Stockholders					Minority Interest	Total
	Number of Shares	Share Capital	Capital Reserve	Fair Value Reserve	Retained Earnings		
	'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2004	1,437	1,437	166,685	8,024	58,730	424	235,300
Net profit	-	-	-	-	7,670	4,602	12,272
Increase in fair value of investments	-	-	-	2,446	-	-	2,446
Dividend paid (Note 12)	-	-	-	-	(287)	-	(287)
<b>Balance at 30 June 2005</b>	1,437	1,437	166,685	10,470	66,113	5,026	249,731
Net loss	-	-	-	-	(6,348)	( 280)	(6,628)
Decrease in fair value of investments	-	-	-	(2,919)	-	-	(2,919)
<b>Balance at 30 June 2006</b>	1,437	1,437	166,685	7,551	59,765	4,746	240,184

# The Palace Amusement Company (1921) Limited

## Group Statement of Cash Flows

Year ended 30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

	2006 \$'000	2005 \$'000
<b>Cash Flows from Operating Activities</b>		
Cash (used in)/provided by operating activities (Note 26)	(5,384)	14,910
<b>Cash Flows from Investing Activities</b>		
Purchase of fixed assets	(4,097)	(8,185)
Proceeds from sale of fixed assets	8,349	-
Long term receivables received	-	1,895
Dividend received	154	104
Cash provided by/(used in) investing activities	<u>4,406</u>	<u>(6,186)</u>
<b>Cash Flows from Financing Activities</b>		
Long term loans repaid	(12,190)	(13,922)
Interest paid	(3,631)	(9,047)
Dividends paid	-	(287)
Cash used in financing activities	<u>(15,821)</u>	<u>( 23,256)</u>
	(16,799)	(14,532)
Exchange gain on foreign cash balances	<u>2,289</u>	<u>504</u>
Decrease in cash and cash equivalents	<u>(14,510)</u>	<u>(14,028)</u>
Cash and cash equivalents at beginning of year	<u>43,894</u>	<u>57,922</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>29,384</u></u>	<u><u>43,894</u></u>

# The Palace Amusement Company (1921) Limited

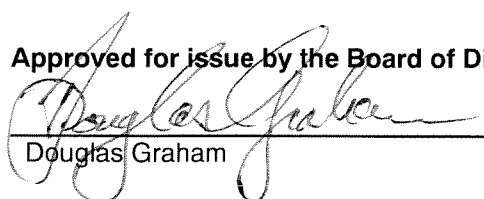
Company Balance Sheet

30 June 2006

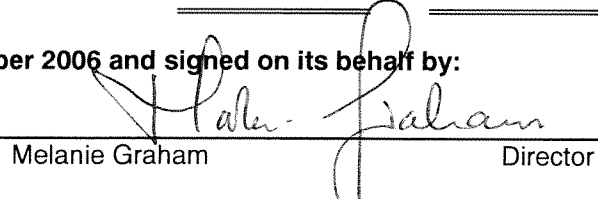
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2006 \$'000	2005 \$'000
<b>Non-Current Assets</b>			
Fixed assets	13	103,817	120,439
Investments	14	3,657	5,039
Deferred tax assets	15	4,383	3,427
Pension surplus	16	25,600	20,501
Due from subsidiary companies	17	31,408	43,059
<b>Current Assets</b>			
Inventories	18	12,517	15,048
Accounts receivable	19	14,117	8,449
Taxation recoverable		9,806	9,206
Cash and bank balances	20	47,363	56,274
		83,803	88,977
<b>Current Liabilities</b>			
Accounts payable	21	23,466	42,387
Current portion of long term liabilities	22	10,049	12,190
Bank overdraft	22	18,479	12,910
		51,994	67,487
<b>Net Current Assets</b>			
		31,809	21,490
		200,674	213,955
<b>Shareholders' Equity</b>			
Share capital	23	1,437	1,437
Capital reserve	24	148,365	148,365
Fair value reserve	25	3,004	4,386
Retained earnings		35,892	38,280
		188,698	192,468
<b>Non-Current Liabilities</b>			
Long term liabilities	22	11,976	21,487
		200,674	213,955

Approved for issue by the Board of Directors on 22 September 2006 and signed on its behalf by:

  
Douglas Graham

Director

  
Melanie Graham

Director



# The Palace Amusement Company (1921) Limited

Company Statement of Changes in Equity

Year ended 30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

	Number of Shares	Share Capital	Capital Reserve	Fair Value Reserve	Retained Earnings	Total
	'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 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 12)	-	-	-	-	(287)	(287)
<b>Balance at 30 June 2005</b>	<b>1,437</b>	<b>1,437</b>	<b>148,365</b>	<b>4,386</b>	<b>38,280</b>	<b>192,468</b>
Net loss	-	-	-	-	(2,388)	(2,388)
Decrease in fair value of investments	-	-	-	(1,382)	-	(1,382)
<b>Balance at 30 June 2006</b>	<b>1,437</b>	<b>1,437</b>	<b>148,365</b>	<b>3,004</b>	<b>35,892</b>	<b>188,698</b>

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

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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 1A South Camp Road, Kingston.

The company is listed on the Jamaica Stock Exchange.

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.

## 2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRSs), 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 IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

### **Standards, interpretations and amendments to published standards effective in 2006**

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following, which are relevant to its operations. The 2005 comparative figures have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earnings per Share
IAS 39 (revised 2003/2004)	Financial Instruments: Recognition and Measurement
IFRS 5 (issued 2004)	Non-current Assets Held for Sale and Discontinued Operations

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

#### ***Standards, interpretations and amendments to published standards effective in 2006 (continued)***

The adoption of the new standards, amendments and interpretations to existing standards did not result in substantial changes to the Group's accounting policies and has not impacted the amounts reported for the current or prior years, but has affected the format and extent of disclosures presented in the accounts.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All new standards, amendments and interpretations adopted by the Group require retrospective application. There was no impact on opening retained earnings at 1 July 2005 from the adoption of any of the above-mentioned standards.

#### ***Standards, interpretations and amendments to published standards that are not yet effective***

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective for the Group at balance sheet date, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

- **IAS 19 (Amendment), Employee Benefits** (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 July 2006.
- **IAS 39 (Amendment), The Fair Value Option** (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 July 2006.
- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 July 2007.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (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.

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### (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.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (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 Group 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.

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### (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.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (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.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (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

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity in another entity.

#### *Financial assets*

The Group classifies its financial assets in the following categories: loans and receivables, available for sale, and at fair value through the profit and loss account. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. At the balance sheet date, trade receivables were classified as loans and receivables; investments were classified as available-for-sale; and cash and bank balances were classified as at fair value through profit or loss.

#### *Financial liabilities*

The Group's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. At the balance sheet date, the following items were classified as financial liabilities: bank overdraft, long term loans and trade payables.

### (r) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to reflect the requirements of new IFRSs, as well as amendments to and interpretations of existing IFRSs.

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# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. 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.

#### (i) Market risk

##### ***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises from US dollar transactions for purchases, US dollar cash and bank balances, and US dollar long term liabilities. Management sets limits on the level of exposure by currency and in total based on guidelines from the Board of Directors. The balance sheet at 30 June 2006 includes aggregate net foreign assets of approximately US\$549,000 (2005 – US\$488,000) in respect of such transactions

##### ***Price risk***

Price 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 instrument or its issuer or factors affecting all instruments traded in the market. The Group has no significant exposure to such risks.

#### (ii) 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 services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

#### (iii) 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, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed credit lines available.

#### (iv) Cash flow and fair value 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 2006, the Group's operating cash flows are substantially independent of changes in market prices, however, the Group has interest-earning assets as disclosed in Note 20 and interest-bearing liabilities as disclosed in Note 22.



# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management (Continued)

### (b) Fair value estimation

The fair value of financial instruments traded in active markets, such as available-for-sale investments, is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair values of these financial instruments are determined as follows:

- (i) 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 include cash and bank balances, trade receivables and payables and bank overdraft.
- (iii) The carrying values of long term liabilities approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has not made any judgements that it believes would cause a significant impact on the amounts recognised in the financial statements.

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### (b) Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### ***Retirement benefit obligations***

The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate, and, in the case of health benefits, the expected rate of increase in health costs. Any changes in these assumptions will impact the net periodic cost or income recorded for retirement benefits and may affect planned funding of the pension plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the group considered interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity approximating the terms of the related obligations. The expected rate of increase of health costs has been determined by comparing the historical relationship of the actual health cost increases with the rate of inflation. Other key assumptions for the retirement benefits are based on current market conditions.

# The Palace Amusement Company (1921) Limited

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## 5. Segment Reporting

Primary reporting format – geographical segments:

	<b>Kingston</b>	<b>Montego Bay</b>	<b>Mandeville</b>	<b>Portmore</b>	<b>Total</b>
	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>	259,126	68,067	25,530	2,425	355,148
Segment result	77,284	(3,375)	(7,389)	(1,645)	64,875
Unallocated costs					(70,910)
<b>Operating loss</b>					<b>(6,035)</b>
Segment assets	104,847	57,508	39,859	-	202,214
Unallocated assets					110,221
<b>Total assets</b>					<b>312,435</b>
Segment liabilities	29,437	13,537	8,488	-	51,462
Unallocated liabilities					20,789
<b>Total liabilities</b>					<b>72,251</b>
<b>Other segment items –</b>					
Capital expenditure	3,703	56	306	32	4,097
Depreciation	11,579	10,163	5,687	135	27,564

	<b>Kingston</b>	<b>Montego Bay</b>	<b>Mandeville</b>	<b>Portmore</b>	<b>Total</b>
	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>	262,835	76,582	28,739	10,046	378,202
Segment result	92,847	(1,475)	(8,559)	(1,761)	81,052
Unallocated costs					(64,652)
<b>Operating profit</b>					<b>16,400</b>
Segment assets	114,899	67,596	45,236	806	228,537
Unallocated assets					123,737
<b>Total assets</b>					<b>352,274</b>
Segment liabilities	54,330	17,927	13,250	-	85,507
Unallocated liabilities					17,036
<b>Total liabilities</b>					<b>102,543</b>
<b>Other segment items –</b>					
Capital expenditure	5,371	1,355	1,024	435	8,185
Depreciation	13,640	10,033	5,611	119	29,403

# The Palace Amusement Company (1921) Limited

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## 5. 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:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Box office receipts	213,103	245,066
Confectionery sales	103,921	106,459
Film rental	23,377	13,945
Other activities	14,747	12,732
	<u>355,148</u>	<u>378,202</u>

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

## 6. Other Operating Income

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest income	3,281	3,877
Investment income	154	104
Net foreign exchange gains	3,807	4,510
Gain on sale of fixed assets	7,863	-
Proceeds from insurance claim	4,519	29,329
Screen advertising	8,553	8,479
Rental and other income	7,960	1,355
	<u>36,137</u>	<u>47,654</u>

# The Palace Amusement Company (1921) Limited

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## 7. Expenses by Nature

Total direct, administration and other operating expenses:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Advertising and promotion	20,155	17,462
Auditors' remuneration –		
Current year	2,015	1,890
Prior year	50	-
Cost of inventories recognised as expense	46,055	48,838
Depreciation	27,564	29,403
Film cost	101,204	104,953
Insurance	7,312	5,615
Janitorial services	6,295	5,881
Legal and professional fees	2,940	1,664
Licence fees	2,217	2,477
Motor vehicle expenses	2,868	4,048
Other	11,469	6,591
Repairs, maintenance and renewals	10,284	12,535
Security	12,344	15,237
Staff costs (Note 8)	90,853	101,732
Stationery and supplies	7,561	7,495
Theatre rental	15,972	15,626
Transportation and courier	2,550	3,168
Utilities	27,612	24,841
	<u>397,320</u>	<u>409,456</u>

## 8. Staff Costs

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	75,627	84,218
Statutory contributions	6,875	8,001
Pension	(3,648)	(5,183)
Other	11,999	14,696
	<u>90,853</u>	<u>101,732</u>

The Group employed 171 persons at the end of the year (2005 – 192).

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## 9. Taxation Expense

Income tax is computed on the profit for the year adjusted for tax purposes and comprises deferred income tax at 33 $\frac{1}{3}$ % (Note 15).

The tax on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the applicable tax rate of 33 $\frac{1}{3}$ %, as follows:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
(Loss)/profit before taxation	<u>(9,666)</u>	<u>7,353</u>
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	(3,222)	2,451
Adjusted for the effect of:		
Insurance recoveries not subject to tax	-	(7,968)
Other	184	598
	<u>(3,038)</u>	<u>(4,919)</u>

## 10. Net (Loss)/Profit and Retained Earnings Attributable to the Stockholders

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
(a) Net (loss)/profit is dealt with as follows in the financial statements of:		
The company	(2,388)	(3,568)
The subsidiaries	<u>(3,960)</u>	<u>11,238</u>
	<u>(6,348)</u>	<u>7,670</u>
(b) Retained earnings are dealt with as follows in the financial statements of:		
The company	35,892	38,280
The subsidiaries	<u>23,873</u>	<u>27,833</u>
	<u>59,765</u>	<u>66,113</u>

# The Palace Amusement Company (1921) Limited

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## 11. Earnings Per Stock Unit

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

	<b>2006</b>	<b>2005</b>
Net profit attributable to stockholders (\$'000)	(6,348)	7,670
Number of ordinary stock units ('000)	1,437	1,437
Earnings per stock unit (\$ per share)	<u>(4.42)</u>	<u>5.34</u>

The company has no dilutive potential ordinary shares.

## 12. Dividends

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

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# The Palace Amusement Company (1921) Limited

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## 13. Fixed Assets

	The Group					Total \$'000
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Improvements \$'000	Equipment, Fixtures & Motor Vehicles \$'000	
	<b>2006</b>					
Cost -						
At 1 July 2005	19,969	72,454	1,183	63,051	205,081	361,738
Additions	-	-	-	-	4,097	4,097
Disposals	(66)	(90)	-	-	(683)	(839)
At 30 June 2006	19,903	72,364	1,183	63,051	208,495	364,996
Depreciation -						
At 1 July 2005	-	14,832	358	22,083	111,661	148,934
Charge for the year	-	1,810	28	5,862	19,864	27,564
Relieved on disposals	-	(31)	-	-	(322)	(353)
At 30 June 2006	-	16,611	386	27,945	131,203	176,145
Net Book Value -						
30 June 2006	19,903	55,753	797	35,106	77,292	188,851
	<b>2005</b>					
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

# The Palace Amusement Company (1921) Limited

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30 June 2006

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## 13. Fixed Assets (Continued)

	The Company					Total \$'000
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Improvements \$'000	Equipment, Fixtures & Motor Vehicles \$'000	
	<b>2006</b>					
Cost -						
At 1 July 2005	1,076	96	1,183	63,051	144,685	210,091
Additions	-	-	-	-	3,556	3,556
Disposals	(66)	(90)	-	-	(683)	(839)
At 30 June 2006	1,010	6	1,183	63,051	147,558	212,808
Depreciation -						
At 1 July 2005	-	30	358	22,083	67,181	89,652
Charge for the year	-	3	28	5,862	13,799	19,692
Relieved on disposal	-	(31)	-	-	(322)	(353)
At 30 June 2006	-	2	386	27,945	80,658	108,991
Net Book Value -						
30 June 2006	1,010	4	797	35,106	66,900	103,817
	<b>2005</b>					
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

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

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## 14. Investments

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Quoted	7,737	10,656	3,172	4,554
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
	<u>7,737</u>	<u>10,656</u>	<u>3,657</u>	<u>5,039</u>

# The Palace Amusement Company (1921) Limited

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## 15. Deferred Income Taxes

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

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:

	<u>The Group</u>		<u>The Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Deferred tax assets	5,138	3,916	4,383	3,427
Deferred tax liabilities	(2,310)	(4,126)	-	-
	<u>2,828</u>	<u>(210)</u>	<u>4,383</u>	<u>3,427</u>

The movement in deferred taxation is as follows:

	<u>The Group</u>		<u>The Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Balance at start of year	(210)	(5,129)	3,427	(71)
Credit for the year (Note 9)	3,038	4,919	956	3,498
Balance at end of year	<u>2,828</u>	<u>(210)</u>	<u>4,383</u>	<u>3,427</u>

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

	<u>The Group</u>		<u>The Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Deferred tax assets to be recovered after more than 12 months	18,133	10,955	17,367	10,463
Deferred tax liabilities to be settled after more than 12 months	<u>(14,483)</u>	<u>(13,444)</u>	<u>(12,162)</u>	<u>(9,315)</u>

# The Palace Amusement Company (1921) Limited

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## 15. Deferred Income Taxes (Continued)

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

Deferred tax assets	The Group		
	Provisions	Tax loss	Total
	\$'000	carry forwards \$'000	\$'000
At 1 July 2005	2,875	10,955	13,830
Credit/(charge) for the year	(2,875)	7,178	4,303
At 30 June 2006	-	18,133	18,133

Deferred tax liabilities	Accelerated capital	Pension	Unrealised foreign	Interest	Total
	allowances	surplus	exchange gains	receivable	
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2005	6,610	6,834	508	88	14,040
Charge/(credit) for the year	(660)	1,699	-	226	1,265
At 30 June 2006	5,950	8,533	508	314	15,305

## The Company

Deferred tax assets	Provisions	Tax loss	Total
	\$'000	carry forwards \$'000	\$'000
	At 1 July 2005	2,875	10,463
Credit/(charge) for the year	(2,875)	6,904	4,029
At 30 June 2006	-	17,367	17,367

Deferred tax liabilities	Accelerated capital	Pension	Unrealised foreign	Interest	Total
	allowances	surplus	exchange gains	receivable	
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2005	2,481	6,834	508	88	9,911
Charge for the year	1,148	1,699	-	226	3,073
At 30 June 2006	3,629	8,533	508	314	12,984

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 \$54,399,000 for the Group and \$52,100,000 for the company (2005 – \$32,864,000 and \$31,390,000 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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## 16. Pension Surplus

- (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:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Fair value of plan assets	74,660	103,805
Present value of obligations	(41,066)	(63,857)
	<u>33,594</u>	<u>39,948</u>
Unrecognised actuarial gain	(19,903)	(30,179)
	<u><u>13,691</u></u>	<u><u>9,769</u></u>

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

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	9,769	4,916
Amounts recognised in the income statement	2,786	1,745
Contributions paid	1,136	3,108
At end of year	<u><u>13,691</u></u>	<u><u>9,769</u></u>

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

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Current service cost	(288)	(38)
Interest cost	(6,310)	(7,093)
Expected return on plan assets	8,498	8,169
Actuarial gain recognised during the year	886	707
	<u>2,786</u>	<u>1,745</u>
Actual return on plan assets	<u><u>(443)</u></u>	<u><u>16,038</u></u>

The principal actuarial assumptions used were as follows:

	<b>2006</b>	<b>2005</b>
Discount rate	12.0%	12.5%
Long term inflation rate	8%	8%
Expected return on plan assets	9.5%	9.5%
Future salary increases	9%	9%
Future pension increases	<u><u>Nil</u></u>	<u><u>Nil</u></u>

# The Palace Amusement Company (1921) Limited

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## 16. Pension Surplus (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:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Fair value of plan assets	28,451	25,818
Present value of obligations	(14,490)	(12,371)
	<u>13,961</u>	<u>13,447</u>
Unrecognised actuarial gain	(2,052)	(2,715)
	<u><u>11,909</u></u>	<u><u>10,732</u></u>

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

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	10,732	6,314
Amounts recognised in the income statement	862	3,438
Contributions paid	315	980
At end of year	<u><u>11,909</u></u>	<u><u>10,732</u></u>

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

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Current service cost	(819)	(697)
Interest cost	(1,432)	(1,243)
Actuarial gain recognised during the year	5	-
Expected return on plan assets	3,108	2,490
Change in surplus not eligible for recognition due to limitation	-	2,888
	<u>862</u>	<u>3,438</u>
Actual return on plan assets	<u><u>2,459</u></u>	<u><u>5,247</u></u>

The principal actuarial assumptions used were as follows:

	<b>2006</b>	<b>2005</b>
Discount rate	12.0%	12.5%
Long term inflation rate	7%	7%
Expected return on plan assets	12.0%	12.5%
Future salary increases	10%	10%
Future pension increases	<u>4%</u>	<u>4%</u>

# The Palace Amusement Company (1921) Limited

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### 17. 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.

### 18. Inventories

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cinemas	2,338	2,149	1,492	1,464
General stores	11,290	13,497	11,290	13,497
Other	177	269	177	269
	13,805	15,915	12,959	15,230
Less: Provision for obsolescence	( 442)	(182)	( 442)	(182)
	13,363	15,733	12,517	15,048

### 19. Accounts Receivable

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade	5,855	5,552	5,855	5,552
Prepayments	2,935	2,297	2,935	2,297
Insurance claim	-	14,254	-	-
Sale of land and building	4,984	-	4,984	-
Other	372	621	343	600
	14,146	22,724	14,117	8,449

### 20. Cash and Cash Equivalents

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

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and in hand	2,333	3,081	1,833	2,551
Short term deposits	45,530	53,723	45,530	53,723
	47,863	56,804	47,363	56,274
Bank overdraft (Note 22)	(18,479)	(12,910)	(18,479)	(12,910)
	29,384	43,894	28,884	43,364

Short term deposits include interest receivable amounting to \$942,000 (2005 – \$264,000). The weighted average interest rate on short term deposits was 12% (2005 – 12.5%) and these deposits have an average maturity of 30 days.

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## 21. Accounts Payable

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade payables	16,604	20,063	13,164	14,073
Other payables and accruals	12,833	31,767	10,302	28,314
	<u>29,437</u>	<u>51,830</u>	<u>23,466</u>	<u>42,387</u>

Other payables include a provision of \$Nil (2005 – \$14,464,000) inclusive of General Consumption Tax and interest for outstanding commission on the sale of the Odeon Complex (Note 27).

## 22. Borrowings

	The Group & The Company	
	2006 \$'000	2005 \$'000
Bank overdraft	18,479	12,910
Long term liabilities	22,025	33,677
	<u>40,504</u>	<u>46,587</u>

### (a) Bank overdraft

The company has a bank overdraft facility totalling \$25,000,000 which attracts interest at 22.75% (2005 – 20.75%) 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	
	2006 \$'000	2005 \$'000
(i) Development Bank of Jamaica Limited	-	2,500
(ii) Development Bank of Jamaica Limited	13,537	17,927
(iii) Private Export Funding Corporation (US\$128,547 (2005 – US\$214,244))	8,488	13,250
	<u>22,025</u>	<u>33,677</u>
Less: Current portion	(10,049)	(12,190)
	<u>11,976</u>	<u>21,487</u>

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2006

(expressed in Jamaican dollars unless otherwise indicated)

## 22. Borrowings (Continued)

### (b) Long term liabilities (continued)

- (i) This loan incurred interest at a rate of 13% and was repaid in January 2006. The company had received a moratorium on principal repayments until February 1999. The loan was secured by a first mortgage over the Carib Cinema.
- (ii) This loan incurs 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 incurs 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 four financial years is as follows:

	\$'000
2007	10,049
2008	7,219
2009	4,390
2010	367
	<u>22,025</u>

## 23. Share Capital

	2006 \$'000	2005 \$'000
Authorised - 1,500,000 ordinary shares	<u>1,500</u>	<u>1,500</u>
Issued and fully paid - 1,437,028 stock units	<u>1,437</u>	<u>1,437</u>

Pursuant to the requirements of the Jamaican Companies Act 2004, the ordinary shares of the company were converted from \$1 par value to no par value shares, as the company did not elect to retain its shares with a nominal or par value under the transitional provisions of Section 37(i).

## 24. Capital Reserve

	<u>The Group</u>		<u>The Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'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	-	-
	<u>166,685</u>	<u>166,685</u>	<u>148,365</u>	<u>148,365</u>



# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

## 25. Fair Value Reserve

This represents the unrealised surplus on revaluation of investments.

## 26. Cash Provided By Operating Activities

	2006 \$'000	2005 \$'000
Net (loss)/profit	(6,628)	12,272
Items not affecting cash resources:		
Depreciation	27,564	29,403
Gain on sale of fixed assets	(7,863)	-
Interest income	(3,281)	(3,877)
Investment income	(154)	(104)
Exchange gain on foreign balances	(1,751)	(369)
Interest expense	3,631	9,047
Taxation	(3,038)	(4,919)
	<u>8,480</u>	<u>41,453</u>
Changes in operating assets and liabilities:		
Inventories	2,370	(1,031)
Accounts receivable	8,578	(12,189)
Pension surplus	(5,099)	(9,271)
Accounts payable	(22,393)	(7,162)
	<u>(8,064)</u>	<u>11,800</u>
Interest received	3,281	3,877
Taxation withheld	(601)	(767)
Cash (used in)/provided by operating activities	<u><u>(5,384)</u></u>	<u><u>14,910</u></u>

## 27. 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 amounted to approximately \$9,919,000 inclusive of General Consumption Tax. A provision was made in these financial statements for that amount plus interest. This provision was included in other payables (Note 21).

The Courts have ruled that the company is liable for the commission and, accordingly, the company paid \$15,078,000, representing the above amount plus interest accrued to the date of payment, to C. D. Alexander Company Realty Limited.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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## 28. Related Party Transactions

### (a) Purchases of services

Film rental paid to the parent company for the year amounted to \$54,230,000 (2005 – \$70,317,000). Trade payables include \$1,303,000 (2005 - \$6,124,000) due to the parent company in respect of these expenses.

### (b) Key management compensation

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	22,462	23,076
Statutory contributions	1,259	1,299
Pension	512	1,515
Other	1,269	1,310
	<u>25,502</u>	<u>27,200</u>
Directors' emoluments –		
Fees	990	854
Management remuneration (included above)	<u>13,242</u>	<u>13,625</u>

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