# The Palace Amusement Company (1921) Limited

## Financial Statements
30 June 2007

# The Palace Amusement Company (1921) Limited
Index
**30 June 2007**

| | Page |
|---|---|
| **Auditors' Report to the Members** | |
| **Financial Statements** | |

PricewaterhouseCoopers
Scotiabank Centre
Duke Street
Box 372
Kingston Jamaica
Telephone (876) 922 6230
Facsimile (876) 922 7581

# Independent Auditors' Report

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

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Palace Amusement Company (1921) Limited and its subsidiaries, and the accompanying financial statements of The Palace Amusement Company (1921) Limited standing alone set out on pages 1 to 34, which comprise the consolidated and company balance sheets as of 30 June 2007 and the consolidated and company profit and loss accounts, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS



### *Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the group and the company as of 30 June 2007, and of financial performance and cash flows 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 the requirements of the Jamaican Companies Act.

### Report on Other Legal and Regulatory Requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants

10 October 2007
Kingston, Jamaica

# The Palace Amusement Company (1921) Limited

## Group Profit and Loss Account

**Year ended 30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **Revenue** | 5 | 414,727 | 355,148 |
| Direct expenses | | (332,403) | (293,363) |
| **Gross Profit** | | 82,324 | 61,785 |
| Other operating income | 6 | 18,750 | 36,137 |
| Administration expenses | | (92,619) | (98,474) |
| Other operating expenses | | (2,850) | (5,483) |
| **Operating Profit/(Loss)** | | 5,605 | (6,035) |
| Finance costs – interest expense | | (3,636) | (3,631) |
| **Profit/(Loss) before Taxation** | | 1,969 | (9,666) |
| Taxation | 9 | (7,567) | 3,038 |
| **NET LOSS** | | (5,598) | (6,628) |
| | | | |
| **Attributable to:** | | | |
| Stockholders of the company | 10 | (5,504) | (6,348) |
| Minority interest | | ( 94) | ( 280) |
| | | (5,598) | (6,628) |
| | | | |
| **Earnings per Stock Unit Attributable to Stockholders of the Company** | 11 | ($3.83) | ($4.42) |

# The Palace Amusement Company (1921) Limited

Group Balance Sheet

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Fixed assets | 12 | 163,547 | 188,851 |
| Investments | 13 | 7,304 | 7,737 |
| Deferred tax assets | 14 | 489 | 5,138 |
| Pension surplus | 15 | 29,049 | 25,600 |
| **Current Assets** | | | |
| Inventories | 17 | 13,778 | 13,363 |
| Accounts receivable | 18 | 11,327 | 14,146 |
| Taxation recoverable | | 10,375 | 9,737 |
| Cash and bank balances | 19 | 64,755 | 47,863 |
| | | 100,235 | 85,109 |
| **Current Liabilities** | | | |
| Accounts payable | 20 | 37,483 | 29,437 |
| Current portion of long term liabilities | 21 | 7,328 | 10,049 |
| Bank overdraft | 21 | 11,675 | 18,479 |
| | | 56,486 | 57,965 |
| **Net Current Assets** | | 43,749 | 27,144 |
| | | 244,138 | 254,470 |
| **Stockholders' Equity** | | | |
| Share capital | 23 | 1,437 | 1,437 |
| Capital reserve | 23 | 166,685 | 166,685 |
| Fair value reserve | 24 | 7,118 | 7,551 |
| Retained earnings | | 54,261 | 59,765 |
| | | 229,501 | 235,438 |
| **Minority Interest** | | 4,652 | 4,746 |
| | | 234,153 | 240,184 |
| **Non-Current Liabilities** | | | |
| Long term liabilities | 21 | 4,757 | 11,976 |
| Deferred tax liabilities | 14 | 5,228 | 2,310 |
| | | 244,138 | 254,470 |

**Approved for issue by the Board of Directors on 10 October 2007 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 2007**

(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 2005 | 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) |
| **Balance at 30 June 2006** | 1,437 | 1,437 | 166,685 | 7,551 | 59,765 | 4,746 | 240,184 |
| Net loss | - | - | - | - | (5,504) | ( 94) | (5,598) |
| Decrease in fair value of investments | - | - | - | (433) | - | - | (433) |
| **Balance at 30 June 2007** | 1,437 | 1,437 | 166,685 | 7,118 | 54,261 | 4,652 | 234,153 |

# The Palace Amusement Company (1921) Limited

Group Statement of Cash Flows

**Year ended 30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash provided by/(used in) operating activities (Note 25) | 36,078 | (5,384) |
| **Cash Flows from Investing Activities** | | |
| Purchase of fixed assets | (595) | (4,097) |
| Proceeds from sale of fixed assets | - | 8,349 |
| Dividend received | 180 | 154 |
| Cash (used in)/provided by investing activities | (415) | 4,406 |
| **Cash Flows from Financing Activities** | | |
| Long term loans repaid | (10,049) | (12,190) |
| Interest paid | (3,636) | (3,631) |
| Cash used in financing activities | (13,685) | (15,821) |
| | 21,978 | (16,799) |
| Exchange gain on foreign cash balances | 1,718 | 2,289 |
| Increase/(decrease) in cash and cash equivalents | 23,696 | (14,510) |
| Cash and cash equivalents at beginning of year | 29,384 | 43,894 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 53,080 | 29,384 |

# The Palace Amusement Company (1921) Limited

Company Profit and Loss Account

**Year ended 30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Revenue** | 336,393 | 295,367 |
| Direct expenses | 276,018 | (252,609) |
| **Gross Profit** | 60,375 | 42,758 |
| Other operating income | 38,869 | 52,672 |
| Administration expenses | (84,167) | (89,937) |
| Other operating expenses | (2,850) | (5,483) |
| **Operating Profit** | 12,227 | 10 |
| Finance costs – interest expense | (3,559) | (3,354) |
| **Profit/(Loss) before Taxation** | 8,668 | (3,344) |
| Taxation | (9,350) | 956 |
| **NET LOSS** | (682) | (2,388) |

# The Palace Amusement Company (1921) Limited

Company Balance Sheet

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Fixed assets | 12 | 86,160 | 103,817 |
| Investments | 13 | 2,378 | 3,657 |
| Deferred tax assets | 14 | - | 4,383 |
| Pension surplus | 15 | 29,049 | 25,600 |
| Due from subsidiary companies | 16 | 28,564 | 31,408 |
| **Current Assets** | | | |
| Inventories | 17 | 12,994 | 12,517 |
| Accounts receivable | 18 | 11,293 | 14,117 |
| Taxation recoverable | | 10,445 | 9,806 |
| Cash and bank balances | 19 | 64,505 | 47,363 |
| | | 99,237 | 83,803 |
| **Current Liabilities** | | | |
| Accounts payable | 20 | 29,924 | 23,466 |
| Current portion of long term liabilities | 21 | 7,328 | 10,049 |
| Bank overdraft | 21 | 11,675 | 18,479 |
| | | 48,927 | 51,994 |
| **Net Current Assets** | | 50,310 | 31,809 |
| | | 196,461 | 200,674 |
| **Stockholders' Equity** | | | |
| Share capital | 22 | 1,437 | 1,437 |
| Capital reserve | 23 | 148,365 | 148,365 |
| Fair value reserve | 24 | 1,725 | 3,004 |
| Retained earnings | | 35,210 | 35,892 |
| | | 186,737 | 188,698 |
| **Non-Current Liabilities** | | | |
| Long term liabilities | 21 | 4,757 | 11,976 |
| Deferred tax liabilities | 14 | 4,967 | - |
| | | 196,461 | 200,674 |

**Approved for issue by the Board of Directors on 10 October 2007 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 2007**

(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 2005 | 1,437 | 1,437 | 148,365 | 4,386 | 38,280 | 192,468 |
| Net loss | - | - | - | - | (2,388) | (2,388) |
| Decrease in fair value of investments | - | - | - | (1,382) | - | (1,382) |
| **Balance at 30 June 2006** | 1,437 | 1,437 | 148,365 | 3,004 | 35,892 | 188,698 |
| Net loss | - | - | - | - | ( 682) | ( 682) |
| Decrease in fair value of investments | - | - | - | (1,279) | - | (1,279) |
| **Balance at 30 June 2007** | 1,437 | 1,437 | 148,365 | 1,725 | 35,210 | 186,737 |

# The Palace Amusement Company (1921) Limited

## Company Statement of Cash Flows

**Year ended 30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash provided by/(used in) operating activities (Note 25) | 36,094 | (6,084) |
| **Cash Flows from Investing Activities** | | |
| Purchase of fixed assets | (332) | (3,556) |
| Proceeds from sale of fixed assets | - | 8,349 |
| Dividend received | 74 | 66 |
| Cash (used in)/provided by investing activities | (258) | 4,859 |
| **Cash Flows from Financing Activities** | | |
| Long term loans repaid | (10,049) | (12,190) |
| Interest paid | (3,559) | (3,354) |
| Cash used in financing activities | (13,608) | (15,544) |
| | 22,228 | (16,769) |
| Exchange gain on foreign cash balances | 1,718 | 2,289 |
| Increase/(decrease) in cash and cash equivalents | 23,946 | (14,480) |
| Cash and cash equivalents at beginning of year | 28,884 | 43,364 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 52,830 | 28,884 |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 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 2007***

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 2006 comparative figures have been amended as required, in accordance with the relevant requirements.

- **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 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 has only impacted the format and extent of disclosures presented in the accounts.

- **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. This amendment did not have a significant impact on the classification of financial instruments, as the Group was able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss.

All amendments adopted by the Group require retrospective application. There was no impact on opening retained earnings at 1 July 2006 from the adoption of any of the above-mentioned amendments.

## 2. Siginificant Accounting Policies (Continued)

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

***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:

- **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.

- **IFRS 8, Operating Segments** (effective for annual periods beginning on or after 1 January 2009) IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by, and the amount reported for each operating segment item to be the measure reported to, the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. IFRS 8 will replace IAS 14 – Segment Reporting. The Group will apply IFRS 8 from 1 July 2009, but it is not expected to have any impact on the Group's accounts.

- **IFRIC 8, Scope of IFRS 2** (effective for annual periods beginning on or after 1 May 2006) IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 July 2007, but it is not expected to have any impact on the Group's accounts;

- **IFRIC 10, Interim Financial Reporting and Impairment** (effective from 1 November 2006).
IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The group will apply IFRIC 10 from annual periods beginning 1 July 2007, but it is not expected to have any impact on the Group's accounts.

## 2. Significant Accounting Policies (Continued)

### (b) B asis of 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% |
| The Cinema Company of Jamaica Limited | 100.0% |

### (c) Foreign currency translation

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

### (d) Fixed assets and depreciation

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

Depreciation is calculated mainly on the straight line basis at such rates as will write off the carrying value of the assets over the period of their expected useful lives. Land is not depreciated. The expected useful lives of the other fixed assets are as follows:

| | |
|---|---|
| Theatre and other buildings | 40 years |
| Leasehold improvements | 10 years |
| Plant, equipment and furniture and fixtures | 10 years |
| Motor vehicles | 5 years |

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit.

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

### (e) Impairment of non-current assets

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

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 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.

### (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.

## 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) P rovisions

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) R evenue 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



## 2. Significant Accounting Policies (Continued)

### (p) S egment 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 financial assets 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 financial assets 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.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 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 consolidated balance sheet at 30 June 2007 includes aggregate net foreign assets of approximately US$660,000 (2006 – US$549,000) 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 2007, 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 19 and interest-bearing liabilities as disclosed in Note 21.

# The Palace Amusement Company (1921) Limited
Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 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.

### (b) K ey 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

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segment Reporting

Primary reporting format – geographical segments:

| | Kingston 2007 $'000 | Montego Bay 2007 $'000 | Mandeville 2007 $'000 | Portmore 2007 $'000 | Total 2007 $'000 |
|---|---|---|---|---|---|
| **Revenue** | 306,137 | 77,779 | 30,811 | - | 414,727 |
| Segment result | 74,887 | 1,565 | (4,127) | - | 72,325 |
| Unallocated costs | | | | | (66,720) |
| **Operating profit** | | | | | 5,605 |
| Segment assets | 96,004 | 47,189 | 34,132 | - | 177,325 |
| Unallocated assets | | | | | 123,299 |
| **Total assets** | | | | | 300,624 |
| Segment liabilities | 37,483 | 9,147 | 2,938 | - | 49,568 |
| Unallocated liabilities | | | | | 16,903 |
| **Total liabilities** | | | | | 66,471 |
| **Other segment items –** | | | | | |
| Capital expenditure | 506 | 89 | - | - | 595 |
| Depreciation | 10,018 | 10,166 | 5,715 | - | 25,899 |

| | Kingston 2006 $'000 | Montego Bay 2006 $'000 | Mandeville 2006 $'000 | Portmore 2006 $'000 | Total 2006 $'000 |
|---|---|---|---|---|---|
| **Revenue** | 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) |
| **Operating loss** | | | | | (6,035) |
| Segment assets | 104,847 | 57,508 | 39,859 | - | 202,214 |
| Unallocated assets | | | | | 110,221 |
| **Total assets** | | | | | 312,435 |
| Segment liabilities | 29,437 | 13,537 | 8,488 | - | 51,462 |
| Unallocated liabilities | | | | | 20,789 |
| **Total liabilities** | | | | | 72,251 |
| **Other segment items –** | | | | | |
| Capital expenditure | 3,703 | 56 | 306 | 32 | 4,097 |
| Depreciation | 11,579 | 10,163 | 5,687 | 135 | 27,564 |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 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:

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Box office receipts | 250,795 | 213,103 |
| Confectionery sales | 124,780 | 103,921 |
| Film rental | 25,272 | 23,377 |
| Other activities | 13,880 | 14,747 |
| | 414,727 | 355,148 |

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

## 6. Other Operating Income

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| Management fees | - | - | 20,225 | 16,623 |
| Interest income | 2,899 | 3,281 | 2,899 | 3,281 |
| Investment income | 180 | 154 | 74 | 66 |
| Net foreign exchange gains | 5,290 | 3,807 | 5,290 | 3,807 |
| Gain on sale of fixed assets | - | 7,863 | - | 7,863 |
| Proceeds from insurance claim | - | 4,519 | - | 4,519 |
| Screen advertising | 7,383 | 8,553 | 7,383 | 8,553 |
| Rental and other income | 2,998 | 7,960 | 2,998 | 7,960 |
| | 18,750 | 36,137 | 38,869 | 52,672 |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 7. Expenses by Nature

Total direct, administration and other operating expenses:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Advertising and promotion | 23,562 | 18,586 | 7,498 | 8,497 |
| Auditors' remuneration – | | | | |
| Current year | 2,190 | 2,015 | 1,750 | 1,615 |
| Prior year | - | 50 | - | |
| Cost of inventories recognised as expense | 59,393 | 47,624 | 21,788 | 21,032 |
| Depreciation | 25,899 | 27,564 | 17,989 | 19,692 |
| Film cost | 118,755 | 101,204 | 168,424 | 144,632 |
| Insurance | 8,284 | 7,312 | 5,071 | 4,571 |
| Bank security & fees | 2,477 | 1,998 | 1,444 | 1,252 |
| Legal and professional fees | 665 | 2,940 | 497 | 2,857 |
| Licence fees | 2,593 | 2,217 | 1,211 | 1,081 |
| Motor vehicle expenses | 2,785 | 2,868 | 2,785 | 2,868 |
| Other | 8,417 | 16,369 | 6,616 | 10,888 |
| Repairs, maintenance and renewals | 11,322 | 10,284 | 7,962 | 7,652 |
| Security | 9,282 | 12,344 | 5,409 | 7,361 |
| Staff costs (Note 8) | 95,454 | 90,853 | 73,406 | 73,816 |
| Stationery and supplies | 8,874 | 7,561 | 6,006 | 5,377 |
| Theatre rental | 16,783 | 15,972 | 16,783 | 15,972 |
| Transportation and courier | 1,378 | 1,947 | 1,378 | 1,947 |
| Utilities | 29,759 | 27,612 | 17,018 | 16,919 |
| | 427,872 | 397,320 | 363,035 | 348,029 |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 8. Staff Costs

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Wages and salaries | 78,643 | 75,627 | 61,314 | 62,142 |
| Statutory contributions | 7,353 | 6,875 | 5,523 | 5,499 |
| Pension | (3,003) | (3,648) | (3,003) | (3,648) |
| Other | 12,461 | 11,999 | 9,572 | 9,823 |
| | 95,454 | 90,853 | 73,406 | 73,816 |

The Group employed 186 persons at the end of the year (2006 – 171).

## 9. Taxation Expense

Income tax is computed on the profit/(loss) for the year adjusted for tax purposes and comprises deferred income tax at 33⅓% (Note 14).

The tax on the profit/(loss) before taxation differs from the theoretical amount that would arise using the applicable tax rate of 33⅓%, as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Profit/(loss) before taxation | 1,969 | (9,666) | 8,668 | (3,344) |
| Tax calculated at a tax rate of 33⅓% | 656 | (3,222) | 2,889 | (1,115) |
| Adjusted for the effect of: | | | | |
| Disallowed expenses paid on sale of property in prior year | 5,026 | - | 5,026 | - |
| Other disallowed expenses | 1,885 | 184 | 1,435 | 159 |
| | 7,567 | (3,038) | 9,350 | (956) |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 10. Net Loss and Retained Earnings Attributable to the Stockholders

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| (a) Net loss is dealt with as follows in the financial statements of: | | |
| The company | ( 682) | (2,388) |
| The subsidiaries | (4,822) | (3,960) |
| | (5,504) | (6,348) |
| (b) Retained earnings are dealt with as follows in the financial statements of: | | |
| The company | 35,210 | 35,892 |
| The subsidiaries | 19,051 | 23,873 |
| | 54,261 | 59,765 |

## 11. Earnings Per Stock Unit

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

| | 2007 | 2006 |
|---|---|---|
| Net profit attributable to stockholders ($'000) | (5,504) | (6,348) |
| Number of ordinary stock units ('000) | 1,437 | 1,437 |
| Earnings per stock unit ($ per share) | (3.83) | (4.42) |

The company has no dilutive potential ordinary shares.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 12. 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 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 |
| Additions | - | - | - | - | 595 | 595 |
| At 30 June 2007 | 19,903 | 72,364 | 1,183 | 63,051 | 209,090 | 365,591 |
| 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 |
| Charge for the year | - | 1,807 | 28 | 5,887 | 18,177 | 25,899 |
| At 30 June 2007 | - | 18,418 | 414 | 33,832 | 149,380 | 202,044 |
| Net Book Value - | | | | | | |
| 30 June 2007 | 19,903 | 53,946 | 769 | 29,219 | 59,710 | 163,547 |
| 30 June 2006 | 19,903 | 55,753 | 797 | 35,106 | 77,292 | 188,851 |
| 30 June 2005 | 19,969 | 57,622 | 825 | 40,968 | 93,420 | 212,804 |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 12. Fixed Assets (Continued)

**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 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 |
| Additions | - | - | - | - | 332 | 332 |
| At 30 June 2007 | 1,010 | 6 | 1,183 | 63,051 | 147,890 | 213,140 |
| 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 disposals | - | (31) | - | - | (322) | (353) |
| At 30 June 2006 | - | 2 | 386 | 27,945 | 80,658 | 108,991 |
| Charge for the year | - | - | 28 | 5,887 | 12,074 | 17,989 |
| At 30 June 2007 | - | 2 | 414 | 33,832 | 92,732 | 126,980 |
| Net Book Value - | | | | | | |
| 30 June 2007 | 1,010 | 4 | 769 | 29,219 | 55,158 | 86,160 |
| 30 June 2006 | 1,010 | 4 | 797 | 35,106 | 66,900 | 103,817 |
| 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 Financial Reporting Standards in 2002.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 13. Investments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Quoted | 7,304 | 7,737 | 1,893 | 3,172 |
| 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 |
| | 7,304 | 7,737 | 2,378 | 3,657 |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 14. 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 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Deferred tax assets | 489 | 5,138 | - | 4,383 |
| Deferred tax liabilities | (5,228) | (2,310) | (4,967) | - |
| | (4,739) | 2,828 | (4,967) | 4,383 |

The movement in deferred taxation is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Balance at start of year | 2,828 | (210) | 4,383 | 3,427 |
| (Charge)/credit for the year (Note 9) | (7,567) | 3,038 | (9,350) | 956 |
| Balance at end of year | (4,739) | 2,828 | (4,967) | 4,383 |

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Deferred tax assets to be recovered after more than 12 months | 8,423 | 18,133 | 7,781 | 17,367 |
| Deferred tax liabilities to be settled after more than 12 months | (12,564) | (14,483) | (12,150) | (12,162) |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 14. 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**

| | Tax loss carry forwards $'000 | Total $'000 |
|---|---|---|
| At 1 July 2006 | 18,133 | 18,133 |
| Charge for the year | (9,710) | (9,710) |
| At 30 June 2007 | 8,423 | 8,423 |

**Deferred tax liabilities**

| | Accelerated capital allowances $'000 | Pension surplus $'000 | Unrealised foreign exchange gains $'000 | Interest receivable $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 July 2006 | 5,950 | 8,533 | 508 | 314 | 15,305 |
| (Credit)/charge for the year | (3,069) | 1,150 | (130) | (94) | (2,143) |
| At 30 June 2007 | 2,881 | 9,683 | 378 | 220 | 13,162 |

**The Company**

**Deferred tax assets**

| | Tax loss carry forwards $'000 | Total $'000 |
|---|---|---|
| At 1 July 2006 | 17,367 | 17,367 |
| Charge for the year | (9,586) | (9,586) |
| At 30 June 2007 | 7,781 | 7,781 |

**Deferred tax liabilities**

| | Accelerated capital allowances $'000 | Pension surplus $'000 | Unrealised foreign exchange gains $'000 | Interest receivable $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 July 2006 | 3,629 | 8,533 | 508 | 314 | 12,984 |
| (Credit)/charge for the year | (1,162) | 1,150 | (130) | (94) | (236) |
| At 30 June 2007 | 2,467 | 9,683 | 378 | 220 | 12,748 |

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 $25,268,000 for the Group and $23,343,000 for the company (2006 – $54,399,000 and $52,100,000, respectively) are available for set off against future profits and may be carried forward indefinitely.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 15. Pension Surplus

| | The Group and The Company | |
|---|---|---|
| | **2007 $'000** | **2006 $'000** |
| Amounts recognised in the balance sheet – | | |
| Head office employees pension scheme | 16,114 | 13,691 |
| Cinema employees pension scheme | 12,935 | 11,909 |
| | 29,049 | 25,600 |
| Credit recognised in the profit and loss account (Note 8) – | | |
| Head office employees pension scheme | 2,154 | 2,786 |
| Cinema employees pension scheme | 849 | 862 |
| | 3,003 | 3,648 |

***Head office employees pension scheme***
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.

***Cinema employees pension scheme***
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 schemes are valued annually by independent actuaries. The latest actuarial valuation was done as at 30 June 2007.

The amounts recognised in the balance sheet in respect of each scheme were determined as follows:

| | Head office employees pension scheme | | Cinema employees pension scheme | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Fair value of plan assets | 85,237 | 74,660 | 33,084 | 28,451 |
| Present value of funded obligation | (49,693) | (41,066) | (18,075) | (14,490) |
| | 35,544 | 33,594 | 15,009 | 13,961 |
| Unrecognised actuarial gains | (19,430) | (19,903) | (2,074) | (2,052) |
| Asset in the balance sheet | 16,114 | 13,691 | 12,935 | 11,909 |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 15. Pension Surplus (Continued)

The credit recognised in the profit and loss account in respect of each scheme was as follows:

| | Head office employees pension scheme | | Cinema employees pension scheme | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Current service cost | (3,111) | (2,797) | (1,725) | (1,584) |
| Interest cost | (5,250) | (6,310) | (1,646) | (1,432) |
| Employee contributions | 2,420 | 2,509 | 907 | 765 |
| Expected return on plan assets | 7,558 | 8,498 | 3,313 | 3,108 |
| Actuarial gains recognised | 537 | 886 | - | 5 |
| Total included in staff costs | 2,154 | 2,786 | 849 | 862 |

The movement in the fair value of plan assets in respect of each scheme was as follows:

| | Head office employees pension scheme | | Cinema employees pension scheme | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Balance at start of year | 74,660 | 103,805 | 28,451 | 25,818 |
| Employee contributions | 2,420 | 2,509 | 907 | 765 |
| Employer contributions | 269 | 1,136 | 176 | 316 |
| Expected return on plan assets | 7,558 | 8,498 | 3,313 | 3,108 |
| Benefits paid | (853) | (32,346) | (353) | (907) |
| Actuarial gains/(losses) | 1,183 | (8,942) | 590 | (649) |
| Balance at end of year | 85,237 | 74,660 | 33,084 | 28,451 |

The actual return on plan assets was $8,741,000 (2006 – a loss of $443,000) for the head office employees scheme and $3,903,000 (2006 - $2,459,000) for the cinema employees scheme.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected employer contributions for the year ended 30 June 2008 amount to $270,000 for the head office employees scheme and $170,000 for the cinema employees scheme.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 15. Pension Surplus (Continued)

The distribution of plan assets in respect of each scheme was as follows:

| | Head office employees pension scheme | Cinema employees pension scheme |
|---|---|---|
| | **2007** | **2007** |
| | **%** | **%** |
| Mutual funds – | | |
| Equity Fund | 27 | 11 |
| Mortgage and Real Estate Fund | - | 12 |
| Fixed Income Fund | 60 | 76 |
| Other | 13 | 1 |
| | 100 | 100 |

The movement in the present value of the funded obligation in respect of each scheme was as follows:

| | Head office employees pension scheme | | Cinema employees pension scheme | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Balance at start of year | (41,066) | (63,857) | (14,490) | (12,371) |
| Current service cost | (3,111) | (2,797) | (1,725) | (1,584) |
| Interest cost | (5,250) | (6,310) | (1,646) | (1,432) |
| Benefits paid | 853 | 32,346 | 353 | 907 |
| Actuarial losses | (1,119) | (448) | (567) | (10) |
| | (49,693) | (41,066) | (18,075) | (14,490) |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 15. Pension Surplus (Continued)

The five-year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan, and experience adjustments for plan assets and liabilities in respect of each scheme are as follows:

| | Head office employees pension scheme | | | | |
|---|---|---|---|---|---|
| | **2007** | **2006** | **2005** | **2004** | **2003** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Fair value of plan assets | 85,237 | 74,660 | 103,805 | 83,673 | 52,187 |
| Defined benefit obligation | (49,693) | (41,066) | (63,857) | (55,099) | (46,769) |
| Surplus | 35,544 | 33,594 | 39,948 | 28,574 | 5,418 |
| Experience adjustments – | | | | | |
| Fair value of plan assets | 1,183 | (8,942) | 7,869 | 19,788 | 4,249 |
| Defined benefit obligation | 1,119 | 448 | 640 | 689 | (309) |

| | Cinema employees pension scheme | | | | |
|---|---|---|---|---|---|
| | **2007** | **2006** | **2005** | **2004** | **2003** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Fair value of plan assets | 33,084 | 28,451 | 25,818 | 20,381 | 12,975 |
| Defined benefit obligation | (18,075) | (14,490) | (12,371) | (10,915) | (7,702) |
| Surplus | 15,009 | 13,961 | 13,447 | 9,466 | 5,273 |
| Experience adjustments – | | | | | |
| Fair value of plan assets | (590) | 649 | (2,180) | (4,353) | 680 |
| Defined benefit obligation | 567 | 10 | (271) | 1,201 | 591 |

The principal actuarial assumptions used were as follows:

| | Head office employees pension scheme | | Cinema employees pension scheme | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Discount rate | 12.00% | 12.00% | 12.00% | 12.00% |
| Expected return on plan assets | 10.00% | 9.50% | 12.00% | 12.00% |
| Inflation rate | 8.00% | 8.00% | 7.00% | 7.00% |
| Future salary increases | 9.00% | 9.00% | 9.50% | 10.00% |
| Future pension increases | Nil% | Nil% | 4.00% | 4.00% |
| Expected remaining working lives (years) | 23 | 22 | 25 | 27 |

Mortality assumptions for the head office employees pension scheme are based on the 1983 Group Annuity Mortality (GAM83) table; and for the cinema employees pension scheme are based on the American 1994 Group Annuitant Mortality (GAM94) table.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

**30 June 2007**

(expressed in Jamaican dollars unless otherwise indicated)

## 16. Due from Subsidiary Companies

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

## 17. Inventories

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Cinemas | 1,991 | 2,338 | 1,207 | 1,492 |
| General stores | 12,229 | 11,290 | 12,229 | 11,290 |
| Other | - | 177 | - | 177 |
| | 14,220 | 13,805 | 13,436 | 12,959 |
| Less: Provision for obsolescence | ( 442) | (442) | ( 442) | (442) |
| | 13,778 | 13,363 | 12,994 | 12,517 |

## 18. Accounts Receivable

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Trade | 7,189 | 6,227 | 7,155 | 6,198 |
| Prepayments | 4,138 | 2,935 | 4,138 | 2,935 |
| Sale of land and building | - | 4,984 | - | 4,984 |
| | 11,327 | 14,146 | 11,293 | 14,117 |

## 19. Cash and Cash Equivalents

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Cash at bank and in hand | 6,671 | 2,333 | 6,421 | 1,833 |
| Short term deposits | 58,084 | 45,530 | 58,084 | 45,530 |
| | 64,755 | 47,863 | 64,505 | 47,363 |
| Bank overdraft (Note 21) | (11,675) | (18,479) | (11,675) | (18,479) |
| | 53,080 | 29,384 | 52,830 | 28,884 |

Short term deposits include interest receivable amounting to $660,000 (2006 – $942,000). The weighted average interest rate on short term deposits was 12% (2006 – 12%) and these deposits have an average maturity of 30 days.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 20. Accounts Payable

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Trade payables and accruals | 22,981 | 16,604 | 18,462 | 13,164 |
| Other payables | 14,502 | 12,833 | 11,462 | 10,302 |
| | 37,483 | 29,437 | 29,924 | 23,466 |

## 21. Borrowings

| | The Group & The Company | |
|---|---|---|
| | **2007** | **2006** |
| | **$'000** | **$'000** |
| Bank overdraft | 11,675 | 18,479 |
| Long term liabilities | 12,085 | 22,025 |
| | 23,760 | 40,504 |

**(a) Bank overdraft**

The company has bank overdraft facilities totalling $25,000,000 which attracts interest at 19.75% (2006 – 22.75%) and is immediately rate sensitive. The facilities are partially secured by Government of Jamaica Indexed Bonds of US$163,000 held with RBTT Bank Jamaica Limited.

**(b) Long term liabilities**

| | The Group & The Company | |
|---|---|---|
| | **2007** | **2006** |
| | **$'000** | **$'000** |
| (i) Development Bank of Jamaica Limited | 9,147 | 13,537 |
| (ii) Private Export Funding Corporation (US$42,849 (2006 – US$128,547)) | 2,938 | 8,488 |
| | 12,085 | 22,025 |
| Less: Current portion | (7,328) | (10,049) |
| | 4,757 | 11,976 |

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 21. Borrowings (Continued)

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

(i) 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.

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

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

| | $'000 |
|---|---|
| 2008 | 7,328 |
| 2009 | 4,390 |
| 2010 | 367 |
| | 12,085 |

## 22. Share Capital

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Authorised - 1,500,000 ordinary shares | | |
| Issued and fully paid - 1,437,028 stock units | 1,437 | 1,437 |

The company did not elect, under section 37 of the Companies Act 2004, to maintain its shares at par or nominal value. As of 1 August 2005, therefore, the issued shares of the company are deemed to have been converted to shares without a nominal or par value. Prior to that date, the shares had a par value of $1.

## 23. Capital Reserve

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| Surplus on assets carried at deemed cost | 2,428 | 2,428 | 1,373 | 1,373 |
| Realised capital gains | 163,868 | 163,868 | 146,992 | 146,992 |
| Reserve on consolidation | 389 | 389 | - | - |
| | 166,685 | 166,685 | 148,365 | 148,365 |

## 24. Fair Value Reserve

This represents the unrealised surplus on revaluation of investments.

# The Palace Amusement Company (1921) Limited
Notes to the Financial Statements
**30 June 2007**
(expressed in Jamaican dollars unless otherwise indicated)

## 25. Cash Provided By/(Used In) Operating Activities

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Net loss | (5,598) | (6,628) | (682) | (2,388) |
| Items not affecting cash resources: | | | | |
| Depreciation | 25,899 | 27,564 | 17,989 | 19,692 |
| Gain on sale of fixed assets | - | (7,863) | - | (7,863) |
| Interest income | (2,899) | (3,281) | (2,899) | (3,281) |
| Investment income | (180) | (154) | (74) | (66) |
| Exchange gain on foreign balances | (1,609) | (1,751) | (1,609) | (1,751) |
| Interest expense | 3,636 | 3,631 | 3,559 | 3,354 |
| Taxation | 7,567 | (3,038) | 9,350 | (956) |
| | 26,816 | 8,480 | 25,634 | 6,741 |
| Changes in operating assets and liabilities: | | | | |
| Inventories | (415) | 2,370 | (477) | 2,531 |
| Accounts receivable | 2,819 | 8,578 | 2,824 | (5,668) |
| Pension surplus | (3,449) | (5,099) | (3,449) | (5,099) |
| Due from subsidiaries | - | - | 2,844 | 11,651 |
| Accounts payable | 8,046 | (22,393) | 6,458 | (18,921) |
| | 33,817 | (8,064) | 33,834 | (8,765) |
| Interest received | 2,899 | 3,281 | 2,899 | 3,281 |
| Taxation withheld | (638) | (601) | (639) | (600) |
| Cash provided by/(used in) operating activities | 36,078 | (5,384) | 36,094 | (6,084) |

## 26. Related Party Transactions

**(a) Purchases of services**

Film rental paid to the parent company for the year amounted to $58,400,000 (2006 – $54,230,000). Trade payables include $3,825,000 (2006 - $1,303,000) due to the parent company in respect of these expenses.

**(b) Key management compensation**

| | **2007 $'000** | **2006 $'000** |
|---|---|---|
| Wages and salaries | 21,385 | 23,569 |
| Statutory contributions | 1,010 | 965 |
| Pension | 126 | 381 |
| Other | 2006 | 1,701 |
| | 24,522 | 26,616 |
| Directors' emoluments – | | |
| Fees | 712 | 990 |
| Management remuneration (included above) | 10,860 | 13,242 |