

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

**Financial Statements
30 June 2008**

The Palace Amusement Company (1921) Limited

Index

30 June 2008

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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 36, which comprise the consolidated and company balance sheets as of 30 June 2008 and the consolidated and company profit and loss accounts, statements of changes in equity and cash flows 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.

Members of The Palace Amusement Company (1921) Limited
Independent Auditors' Report
Page 2

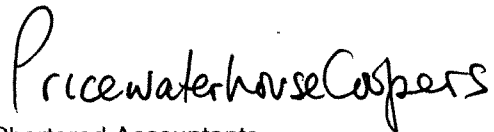
Opinion

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 2008, 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.



Chartered Accountants

10 October 2008
Kingston, Jamaica

The Palace Amusement Company (1921) Limited

Consolidated Profit and Loss Account

Year ended 30 June 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
Revenue	5	479,866	414,727
Direct expenses		(382,627)	(332,403)
Gross Profit		97,239	82,324
Other operating income	6	39,903	18,750
Administration expenses		(102,136)	(92,619)
Other operating expenses		(4,681)	(2,850)
Operating Profit		30,325	5,605
Finance costs – interest expense		(1,976)	(3,636)
Profit before Taxation		28,349	1,969
Taxation	9	(6,767)	(7,567)
NET PROFIT/(LOSS)		21,582	(5,598)
Attributable to:			
Stockholders of the company	10	20,393	(5,504)
Minority interest		1,189	(94)
		21,582	(5,598)
Earnings per Stock Unit Attributable to Stockholders of the Company	11	\$14.19	(\$3.83)

The Palace Amusement Company (1921) Limited

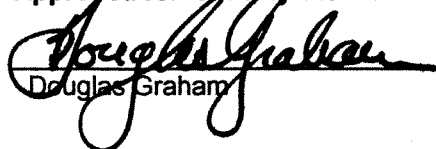
Consolidated Balance Sheet

30 June 2008

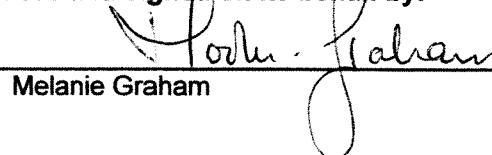
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
Non-Current Assets			
Fixed assets	12	149,992	163,547
Investments	13	10,243	7,304
Deferred tax assets	14	2,715	489
Pension surplus	15	32,475	29,049
Current Assets			
Inventories	17	19,227	13,778
Accounts receivable	18	15,327	11,327
Taxation recoverable		10,120	10,375
Cash and bank balances	19	95,115	64,755
		139,789	100,235
Current Liabilities			
Accounts payable	20	55,584	37,483
Current portion of long term liabilities	21	4,390	7,328
Bank overdraft	21	3,773	11,675
		63,747	56,486
Net Current Assets			
		76,042	43,749
		271,467	244,138
Stockholders' Equity			
Share capital	22	1,437	1,437
Capital reserve	23	166,488	166,685
Fair value reserve	24	10,165	7,118
Retained earnings	10	74,851	54,261
		252,941	229,501
Minority Interest			
		5,841	4,652
		258,782	234,153
Non-Current Liabilities			
Long term liabilities	21	328	4,757
Deferred tax liabilities	14	12,357	5,228
		271,467	244,138

Approved for issue by the Board of Directors on 10 October 2008 and signed on its behalf by:


Douglas Graham

Director


Melanie Graham

Director

The Palace Amusement Company (1921) Limited

Consolidated Statement of Changes in Equity

Year ended 30 June 2008

(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 2006	1,437	1,437	166,685	7,551	59,765	4,746	240,184
Net loss	-	-	-	-	(5,504)	(94)	(5,598)
Losses recognised directly in equity – Decrease in fair value of investments	-	-	-	(433)	-	-	(433)
Total recognised losses for the year	-	-	-	(433)	(5,504)	(94)	(6,031)
Balance at 30 June 2007	1,437	1,437	166,685	7,118	54,261	4,652	234,153
Net profit	-	-	-	-	20,393	1,189	21,582
Gains recognised directly in equity – Increase in fair value of investments	-	-	-	3,047	-	-	3,047
Total recognised gains for the year	-	-	-	3,047	20,393	1,189	24,629
Transfer of realised reserves	-	-	(197)	-	197	-	-
Balance at 30 June 2008	1,437	1,437	166,488	10,165	74,851	5,841	258,782

The Palace Amusement Company (1921) Limited

Consolidated Statement of Cash Flows

Year ended 30 June 2008

(expressed in Jamaican dollars unless otherwise indicated)

	2008 \$'000	2007 \$'000
Cash Flows from Operating Activities		
Cash provided by operating activities (Note 25)	46,551	36,078
Cash Flows from Investing Activities		
Purchase of fixed assets	(10,543)	(595)
Proceeds from sale of fixed assets	8,779	-
Proceeds from sale of investments	66	-
Dividend received	205	180
Cash used in investing activities	(1,493)	(415)
Cash Flows from Financing Activities		
Long term loans repaid	(7,328)	(10,049)
Interest paid	(1,976)	(3,636)
Cash used in financing activities	(9,304)	(13,685)
	35,754	21,978
Exchange gain on foreign cash balances	2,508	1,718
Increase in cash and cash equivalents	38,262	23,696
Cash and cash equivalents at beginning of year	53,080	29,384
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 19)	91,342	53,080

The Palace Amusement Company (1921) Limited

Company Profit and Loss Account

Year ended 30 June 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
Revenue		342,839	286,724
Direct expenses		(268,008)	(226,349)
Gross Profit		74,831	60,375
Other operating income	6	53,314	38,869
Administration expenses		(95,116)	(84,167)
Other operating expenses		(4,681)	(2,850)
Operating Profit		28,348	12,227
Finance costs – interest expense		(1,878)	(3,559)
Profit before Taxation		26,470	8,668
Taxation	9	(9,254)	(9,350)
NET PROFIT/(LOSS)	10	17,216	(682)

The Palace Amusement Company (1921) Limited

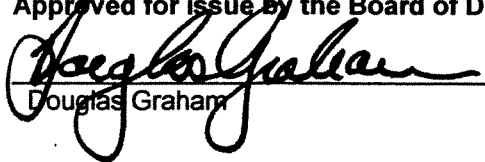
Company Balance Sheet

30 June 2008

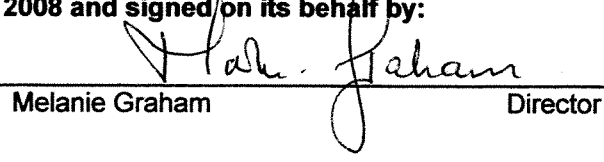
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
Non-Current Assets			
Fixed assets	12	73,431	86,160
Investments	13	2,437	2,378
Pension surplus	15	32,475	29,049
Due from subsidiary companies	16	24,484	28,564
Current Assets			
Inventories	17	18,533	12,994
Accounts receivable	18	14,135	11,293
Taxation recoverable		10,190	10,445
Cash and bank balances	19	94,765	64,505
		137,623	99,237
Current Liabilities			
Accounts payable	20	45,494	29,924
Current portion of long term liabilities	21	4,390	7,328
Bank overdraft	21	3,773	11,675
		53,657	48,927
Net Current Assets			
		83,966	50,310
		216,793	196,461
Stockholders' Equity			
Share capital	22	1,437	1,437
Capital reserve	23	148,365	148,365
Fair value reserve	24	1,880	1,725
Retained earnings	10	52,426	35,210
		204,108	186,737
Non-Current Liabilities			
Long term liabilities	21	328	4,757
Deferred tax liabilities	14	12,357	4,967
		216,793	196,461

Approved for issue by the Board of Directors on 10 October 2008 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 2008

(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 2006	1,437	1,437	148,365	3,004	35,892	188,698
Net loss	-	-	-	-	(682)	(682)
Losses recognised directly in equity –						
Decrease in fair value of investments	-	-	-	(1,279)	-	(1,279)
Total losses recognised for the year	-	-	-	(1,279)	(682)	(1,961)
Balance at 30 June 2007	1,437	1,437	148,365	1,725	35,210	186,737
Net profit	-	-	-	-	17,216	17,216
Gains recognised directly in equity –						
Increase in fair value of investments	-	-	-	155	-	155
Total gains recognised for the year	-	-	-	155	17,216	17,371
Balance at 30 June 2008	1,437	1,437	148,365	1,880	52,426	204,108

The Palace Amusement Company (1921) Limited

Company Statement of Cash Flows

Year ended 30 June 2008

(expressed in Jamaican dollars unless otherwise indicated)

	2008 \$'000	2007 \$'000
Cash Flows from Operating Activities		
Cash provided by operating activities (Note 25)	49,185	36,094
Cash Flows from Investing Activities		
Purchase of fixed assets	(4,749)	(332)
Proceeds from sale of fixed assets	278	-
Proceeds from sale of investments	66	-
Dividend received	80	74
Cash used in investing activities	(4,325)	(258)
Cash Flows from Financing Activities		
Long term loans repaid	(7,328)	(10,049)
Interest paid	(1,878)	(3,559)
Cash used in financing activities	(9,206)	(13,608)
	35,654	22,228
Exchange gain on foreign cash balances	2,508	1,718
Increase in cash and cash equivalents	38,162	23,946
Cash and cash equivalents at beginning of year	52,830	28,884
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 19)	90,992	52,830

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2008

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

The Palace Amusement Company (1921) Limited (the company) and its subsidiaries (collectively referred to as 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 (the parent company), 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, as well as Goldmine Productions and D.S. Pictures, both of Trinidad.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these 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 2008

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 2007 comparative figures have been amended as required, in accordance with the relevant requirements.

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective for annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures relating to financial instruments, but does not have any impact on the classification or valuation of the Group's financial instruments.
- **IFRIC 10, Interim Financial Reporting and Impairment** (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

All standards, interpretations and amendments adopted by the Group require retrospective application. There was no impact on opening retained earnings at 1 July 2007 from the adoption of any of the above-mentioned standards, interpretations and amendments.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2008

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant 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 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 a significant impact on the Group's accounts.
- **IAS 23 (Amendment), 'Borrowing costs'** (effective for annual periods beginning on or after 1 January 2009). The amendment to IAS 23 requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 July 2009 but is currently not applicable to the Group as there are no qualifying assets.
- **IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'** (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 July 2008, but it is not expected to have any impact on the Group's accounts.
- **IAS 27 (Revised), Consolidated and Separate Financial Statements/IFRS 3 (Revised), Business Combinations** (effective for annual periods beginning on or after 1 July 2008). The revised standards bring amendments to the acquisition model and compulsory adoption of the economic entity approach. IFRS 3 will apply a broader scope of transactions, and includes changes to the determination of consideration, goodwill and non-controlling interests.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2008

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis 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 any costs 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 the associated 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 currencies 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 differences 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 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
Equipment 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 2008

(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 profit and loss account 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 Group 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 short term deposits, net of bank overdrafts.

(j) 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 profit and loss account over the period of the borrowings.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2008

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(k) 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.

(l) 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 the profit and loss account over the remaining service lives of the employees.

(m) 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 2008

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(n) 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.

(o) 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.

(p) 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 extended to reflect the requirements of IFRS 7.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2008

(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, cash flow interest rate risk and price risk), credit risk and liquidity risk. Management seeks to minimise potential adverse effects on the financial performance of the Group.

Financial risk management is carried out by the Finance department under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

(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.

Currency risk arises from US dollar transactions for purchases, US dollar cash and bank balances, and US dollar long term liabilities. The Group manages this risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Group further manages this risk by maximising foreign currency earnings and holding net foreign currency assets. As the Group does not have a significant foreign currency exposure, currency fluctuations are not expected to have a material effect on the net results or stockholders' equity.

The Group's exposure to currency risk at year end was as follows:

	2008 US\$'000	2007 US\$'000
Assets		
Accounts receivable	92	-
Cash and bank balances	836	703
	<u>928</u>	<u>703</u>
Liabilities		
Long term liabilities	-	(43)
Net Assets	<u>928</u>	<u>660</u>

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 is exposed to equity securities price risk arising from its holding of available-for-sale investments. As the Group does not have a significant exposure, market price fluctuations are not expected to have a material effect on the net results or stockholders' equity.

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

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.

The Group earns interest on its short term deposits disclosed in Note 19. As these deposits have a short term to maturity and are constantly reinvested at current market rates, they are not significantly exposed to interest rate risk.

The Group incurs interest on its borrowings disclosed in Note 21. The Group analyses its interest rate exposure arising from borrowings on an ongoing basis, taking into consideration the options of refinancing, renewal of existing positions and alternative financing.

The Group's management is of the view that:

- There is no significant exposure for short term bank borrowings, as these instruments continuously re-price to market and the Group has a positive net cash position.
- Long term borrowings issued at variable rates expose the Group to cash flow interest rate risk; however, as the Group has repaid its variable rate long term borrowings during the year, there is no exposure to such risks at year end.
- Long term borrowings issued at fixed rates expose the Group to fair value interest rate risk. As the Group does not have significant long term borrowings at year end, interest rate fluctuations are not expected to have a material effect on the net results or stockholders' equity.

(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. Credit risk arises from trade receivables and cash and bank balances. The Group's maximum exposure of accounts receivables and cash and bank balances are disclosed in Notes 18 and 19.

Trade receivables

The Group has no significant credit risk arising from its principal activities as its primary operations are settled either in cash or by using major credit cards. For its operations done on a credit basis, there is no significant concentration 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. There is no provision for impairment of trade receivables, and none of these receivables is past due.

Cash and bank balances

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.

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3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due. 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.

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by the Finance department, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of collateral which could be used to secure funding if required.
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.
- (iii) Maintaining committed lines of credit.
- (iv) Optimising cash returns on investment.

Cash flows of financial liabilities

The maturity profile of the Group's long term liabilities, based on contractual undiscounted payments, is as follows:

	Within 1 Year \$'000	1 to 2 Years \$'000	2 to 3 Years \$'000	Total \$'000
At 30 June 2008	4,742	371	-	5,113
At 30 June 2007	8,211	4,742	371	13,324

The Group's bank overdraft is due at call, and its trade payables are due within 2 months.

(b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders. The Board of Directors monitors the return on capital, which the Group defines as net operating income, excluding non-recurring items, divided by total stockholders' equity. The Board of Directors also monitors the level of dividends to stockholders.

There are no particular strategies to determine the optimal capital structure.

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3. Financial Risk Management (Continued)

(c) 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.
- (ii) 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) 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.

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5. Segment Reporting

Primary reporting format – geographical segments:

	Kingston	Montego Bay	Mandeville	Total
	2008	2008	2008	2008
	\$'000	\$'000	\$'000	\$'000
Revenue	348,762	95,219	35,885	479,866
Segment result	112,910	841	(5,283)	108,468
Unallocated costs				(78,143)
Operating profit				30,325
Segment assets	103,154	37,402	28,663	169,219
Unallocated assets				165,995
Total assets				335,214
Segment liabilities	55,584	4,718	-	60,302
Unallocated liabilities				16,130
Total liabilities				76,432
Other segment items –				
Capital expenditure	10,110	365	68	10,543
Depreciation	8,083	10,195	5,716	23,994

	Kingston	Montego Bay	Mandeville	Total
	2007	2007	2007	2007
	\$'000	\$'000	\$'000	\$'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

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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:

	2008 \$'000	2007 \$'000
Box office receipts	296,131	250,795
Confectionery sales	139,348	124,780
Film rental	37,742	25,272
Other activities	6,645	13,880
	<u>479,866</u>	<u>414,727</u>

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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Management fees	-	-	23,086	20,225
Interest income	6,331	2,899	6,331	2,899
Investment income	205	180	80	74
Net foreign exchange gains	7,796	5,290	7,796	5,290
Gain on sale of fixed assets	9,828	-	278	-
Screen advertising	8,444	7,383	8,444	7,383
Proceeds from claims for hurricane damages	3,984	-	3,984	-
Rental and other income	3,315	2,998	3,315	2,998
	<u>39,903</u>	<u>18,750</u>	<u>53,314</u>	<u>38,869</u>

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Notes to the Financial Statements

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7. Expenses by Nature

Total direct, administration and other operating expenses:

	The Group		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Advertising and promotion	17,038	23,562	9,679	7,498
Auditors' remuneration	2,505	2,190	2,000	1,750
Bank security & fees	2,744	2,477	1,575	1,444
Cost of inventories recognised as expense	72,734	59,393	31,864	21,788
Depreciation	23,994	25,899	17,478	17,989
Film cost	134,173	118,755	134,173	118,755
Insurance	9,102	8,284	5,509	5,071
Legal and professional fees	792	665	707	497
Licence fees	3,066	2,593	1,485	1,211
Motor vehicle expenses	3,099	2,785	3,099	2,785
Other	8,778	8,417	7,997	6,616
Repairs, maintenance and renewals	17,790	11,322	12,263	7,962
Security	11,008	9,282	6,190	5,409
Staff costs (Note 8)	114,150	95,454	85,533	73,406
Stationery and supplies	11,891	8,874	7,814	6,006
Theatre rental	18,009	16,783	18,009	16,783
Transportation and courier	1,460	1,378	1,460	1,378
Utilities	37,111	29,759	20,970	17,018
	<u>489,444</u>	<u>427,872</u>	<u>367,805</u>	<u>313,366</u>

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8. Staff Costs

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	94,000	78,643	71,778	61,314
Statutory contributions	8,867	7,353	6,342	5,523
Pension (Note 15)	(2,921)	(3,003)	(2,921)	(3,003)
Other	14,204	12,461	10,334	9,572
	<u>114,150</u>	<u>95,454</u>	<u>85,533</u>	<u>73,406</u>

The Group employed 190 persons at the end of the year (2007 – 186).

9. Taxation Expense

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

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Current taxation	1,864	-	1,864	-
Deferred taxation (Note 14)	4,903	7,567	7,390	9,350
	<u>6,767</u>	<u>7,567</u>	<u>9,254</u>	<u>9,350</u>

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

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Profit before taxation	28,349	1,969	26,470	8,668
Tax calculated at a tax rate of 33⅓%	9,450	656	8,823	2,889
Adjusted for the effect of:				
Capital gains on the sale of property	(3,183)	-	-	-
Disallowed expenses	500	6,911	431	6,461
	<u>6,767</u>	<u>7,567</u>	<u>9,254</u>	<u>9,350</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

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

	2008 \$'000	2007 \$'000
(a) Net profit/(loss) is dealt with as follows in the financial statements of:		
The company	17,216	(682)
The subsidiaries	3,177	(4,822)
	<u>20,393</u>	<u>(5,504)</u>
(b) Retained earnings are dealt with as follows in the financial statements of:		
The company	52,426	35,210
The subsidiaries	22,425	19,051
	<u>74,851</u>	<u>54,261</u>

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.

	2008	2007
Net profit/(loss) attributable to stockholders (\$'000)	20,393	(5,504)
Number of ordinary stock units ('000)	1,437	1,437
Earnings per stock unit (\$ per share)	<u>14.19</u>	<u>(3.83)</u>

The company has no dilutive potential ordinary shares.

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12. Fixed Assets

	The Group					Total \$'000
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Improvements \$'000	Equipment, Fixtures & Motor Vehicles \$'000	
Cost -						
At 1 July 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
Additions	-	-	-	-	10,543	10,543
Disposal	(20)	(84)	-	-	(515)	(619)
At 30 June 2008	19,883	72,280	1,183	63,051	219,118	375,515
Depreciation -						
At 1 July 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
Charge for the year	-	1,807	28	5,887	16,272	23,994
Disposals	-	-	-	-	(515)	(515)
At 30 June 2008	-	20,225	442	39,719	165,137	225,523
Net Book Value -						
30 June 2008	19,883	52,055	741	23,332	53,981	149,992
30 June 2007	19,903	53,946	769	29,219	59,710	163,547

The Palace Amusement Company (1921) Limited

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12. Fixed Assets (Continued)

	The Company					Total \$'000
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Improvements \$'000	Equipment, Fixtures & Motor Vehicles \$'000	
Cost -						
At 1 July 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
Additions	-	-	-	-	4,749	4,749
Disposals	-	-	-	-	(481)	(481)
At 30 June 2008	1,010	6	1,183	63,051	152,158	217,408
Depreciation -						
At 1 July 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
Charge for the year	-	-	28	5,887	11,563	17,478
Disposals	-	-	-	-	(481)	(481)
At 30 June 2008	-	2	442	39,719	103,814	143,977
Net Book Value -						
30 June 2008	1,010	4	741	23,332	48,344	73,431
30 June 2007	1,010	4	769	29,219	55,158	86,160

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

During the year, a subsidiary disposed of its freehold land and buildings, and transferred the realised revaluation surpluses of \$197,000 to retained earnings.

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13. Investments

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Quoted, at fair value	10,243	7,304	1,952	1,893
Unquoted – Subsidiaries, at cost:				
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>10,243</u>	<u>7,304</u>	<u>2,437</u>	<u>2,378</u>

14. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33½%.

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	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Deferred tax assets	2,715	489	-	-
Deferred tax liabilities	(12,357)	(5,228)	(12,357)	(4,967)
	<u>(9,642)</u>	<u>(4,739)</u>	<u>(12,357)</u>	<u>(4,967)</u>

The movement in deferred taxation is as follows:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Balance at start of year	(4,739)	2,828	(4,967)	4,383
Charge for the year (Note 9)	(4,903)	(7,567)	(7,390)	(9,350)
Balance at end of year	<u>(9,642)</u>	<u>(4,739)</u>	<u>(12,357)</u>	<u>(4,967)</u>

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14. Deferred Income Taxes (Continued)

Deferred taxation includes the following, prior to offsetting of balances:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Deferred tax assets to be recovered after more than 12 months	2,226	8,423	-	7,781
Deferred tax liabilities to be settled after more than 12 months	(11,825)	(12,564)	(12,314)	(12,150)

Deferred taxation is due to the following temporary differences, prior to offsetting of balances:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Tax loss carry forwards	2,226	8,423	-	7,781
Unrealised foreign exchange gains and losses	84	(378)	84	(378)
Accelerated capital allowances	(1,000)	(2,881)	(1,489)	(2,467)
Pension surplus	(10,825)	(9,683)	(10,825)	(9,683)
Interest receivable	(127)	(220)	(127)	(220)
	(9,642)	(4,739)	(12,357)	(4,967)

Deferred taxation charged in the profit and loss account comprises the following temporary differences:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Tax loss carry forwards	(6,197)	(9,710)	(7,781)	(9,586)
Unrealised foreign exchange gains and losses	462	130	462	130
Accelerated capital allowances	1,881	3,069	978	1,162
Pension surplus	(1,142)	(1,150)	(1,142)	(1,150)
Interest receivable	93	94	93	94
	(4,903)	(7,567)	(7,390)	(9,350)

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 \$6,679,000 for the Group and \$Nil for the company (2007 – \$25,268,000 and \$23,343,000, respectively) are available for set off against future profits and may be carried forward indefinitely.

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15. Pension Surplus

	The Group and The Company	
	2008	2007
	\$'000	\$'000
Amounts recognised in the balance sheet –		
Head office employees pension scheme	18,345	16,114
Cinema employees pension scheme	14,130	12,935
	<u>32,475</u>	<u>29,049</u>
Credit recognised in the profit and loss account (Note 8) –		
Head office employees pension scheme	1,943	2,154
Cinema employees pension scheme	978	849
	<u>2,921</u>	<u>3,003</u>

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 2008.

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	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Fair value of plan assets	103,856	85,237	36,529	33,084
Present value of funded obligation	(56,946)	(49,693)	(18,888)	(18,075)
	<u>46,910</u>	<u>35,544</u>	<u>17,641</u>	<u>15,009</u>
Unrecognised actuarial gains	(28,565)	(19,430)	(3,511)	(2,074)
Asset in the balance sheet	<u>18,345</u>	<u>16,114</u>	<u>14,130</u>	<u>12,935</u>

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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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current service cost	(3,406)	(3,111)	(2,278)	(1,725)
Interest cost	(6,304)	(5,250)	(1,863)	(1,646)
Employee contributions	2,563	2,420	1,111	907
Expected return on plan assets	8,610	7,558	4,008	3,313
Actuarial gains recognised	480	537	-	-
Total included in staff costs	1,943	2,154	978	849

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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Balance at start of year	85,237	74,660	33,084	28,451
Employee contributions	2,563	2,420	1,111	907
Employer contributions	288	269	216	176
Expected return on plan assets	8,610	7,558	4,008	3,313
Benefits paid	(1,125)	(853)	(681)	(353)
Actuarial gains/(losses)	8,283	1,183	(1,209)	590
Balance at end of year	103,856	85,237	36,529	33,084

The actual return on plan assets was \$16,893,000 (2007 – \$8,741,000) for the head office employees scheme and \$2,799,000 (2007 - \$3,903,000) 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 2009 amount to \$280,000 for the head office employees scheme and \$140,000 for the cinema employees scheme.

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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
	2008	2008
	%	%
Mutual funds –		
Equity Fund	58	14
Mortgage and Real Estate Fund	-	14
Fixed Income Fund	25	71
Other	17	1
	<u>100</u>	<u>100</u>

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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Balance at start of year	(49,693)	(41,066)	(18,075)	(14,490)
Current service cost	(3,406)	(3,111)	(2,278)	(1,725)
Interest cost	(6,304)	(5,250)	(1,863)	(1,646)
Benefits paid	1,125	853	681	353
Actuarial gains/(losses)	1,332	(1,119)	2,647	(567)
	<u>(56,946)</u>	<u>(49,693)</u>	<u>(18,888)</u>	<u>(18,075)</u>

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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					
	2008	2007	2006	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000
Fair value of plan assets	103,856	85,237	74,660	103,805	83,673
Defined benefit obligation	(56,946)	(49,693)	(41,066)	(63,857)	(55,099)
Surplus	46,910	35,544	33,594	39,948	28,574
Experience adjustments –					
Fair value of plan assets	8,283	1,183	(8,942)	7,869	19,788
Defined benefit obligation	(1,332)	1,119	448	640	689
Cinema employees pension scheme					
	2008	2007	2006	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000
Fair value of plan assets	36,529	33,084	28,451	25,818	20,381
Defined benefit obligation	(18,888)	(18,075)	(14,490)	(12,371)	(10,915)
Surplus	17,641	15,009	13,961	13,447	9,466
Experience adjustments –					
Fair value of plan assets	(1,209)	590	(649)	2,180	4,353
Defined benefit obligation	(2,647)	(567)	(10)	271	(1,201)

The principal actuarial assumptions used were as follows:

	Head office employees pension scheme		Cinema employees pension scheme	
	2008	2007	2008	2007
Discount rate	13.00%	12.00%	13.00%	12.00%
Expected return on plan assets	10.00%	10.00%	13.50%	12.00%
Long term inflation rate	8.75%	8.00%	9.00%	7.00%
Future salary increases	9.00%	9.00%	10.50%	9.50%
Future pension increases	Nil%	Nil%	4.00%	4.00%
Expected remaining working lives (years)	23	23	24	25

Mortality assumptions are based on the American 1994 Group Annuitant Mortality (GAM94) table.

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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. No interest is charged on these balances, and there are no fixed terms of repayment.

17. Inventories

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Cinemas	2,220	1,991	1,526	1,207
General stores	17,565	12,229	17,565	12,229
	19,785	14,220	19,091	13,436
Less: Provision for obsolescence	(558)	(442)	(558)	(442)
	<u>19,227</u>	<u>13,778</u>	<u>18,533</u>	<u>12,994</u>

18. Accounts Receivable

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	9,981	7,189	9,942	7,155
Sale of freehold land and building	1,153	-	-	-
Prepayments	4,193	4,138	4,193	4,138
	<u>15,327</u>	<u>11,327</u>	<u>14,135</u>	<u>11,293</u>

19. Cash and Cash Equivalents

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

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	11,016	6,671	10,666	6,421
Short term deposits	84,099	58,084	84,099	58,084
	95,115	64,755	94,765	64,505
Bank overdraft (Note 21)	(3,773)	(11,675)	(3,773)	(11,675)
	<u>91,342</u>	<u>53,080</u>	<u>90,992</u>	<u>52,830</u>

Short term deposits include interest receivable amounting to \$383,000 (2007 – \$660,000).

The weighted average interest rate on short term deposits denominated in Jamaican dollars and United States dollars was 12% and 5%, respectively (2007 – 12% and 6%, respectively) and these deposits mature within 90 days.

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20. Accounts Payable

	The Group		The Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Trade payables and accruals	38,584	22,981	32,700	18,462
Other payables	17,000	14,502	12,794	11,462
	<u>55,584</u>	<u>37,483</u>	<u>45,494</u>	<u>29,924</u>

21. Borrowings

	The Group & The Company	
	2008 \$'000	2007 \$'000
Bank overdraft	3,773	11,675
Long term liabilities	4,718	12,085
	<u>8,491</u>	<u>23,760</u>

(a) Bank overdraft

The accounting records of the company reflect a bank overdraft balance at year end, which results from cheques issued but not yet presented to the bank.

In the event that there is an overdraft balance with the bank, the company has bank overdraft facilities totalling \$25,000,000 which attract interest at 19.75% (2007 – 19.75%) and are immediately rate sensitive. The facilities are partially secured by short term deposits totalling US\$163,000 held with RBTT Bank Jamaica Limited.

(b) Long term liabilities

	The Group & The Company	
	2008 \$'000	2007 \$'000
(i) Development Bank of Jamaica Limited	4,718	9,147
(ii) Private Export Funding Corporation (US\$Nil (2007 – US\$42,849))	-	2,938
	<u>4,718</u>	<u>12,085</u>
Less: Current portion	<u>(4,390)</u>	<u>(7,328)</u>
	<u>328</u>	<u>4,757</u>

(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 incurred interest at a rate of LIBOR + 3.5% and was repaid in November 2007. The loan was secured by promissory notes to the value of the loan.

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22. Share Capital

	2008 \$'000	2007 \$'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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Surplus on assets carried at deemed cost	2,231	2,428	1,373	1,373
Realised capital gains	163,868	163,868	146,992	146,992
Reserve on consolidation	389	389	-	-
	166,488	166,685	148,365	148,365

24. Fair Value Reserve

This represents the unrealised surplus on revaluation of investments.

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25. Cash Provided By Operating Activities

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Net profit/(loss)	21,582	(5,598)	17,216	(682)
Items not affecting cash resources:				
Depreciation	23,994	25,899	17,478	17,989
Gain on sale of fixed assets	(9,828)	-	(278)	-
Loss on sale of investments	42	-	30	-
Interest income	(6,331)	(2,899)	(6,331)	(2,899)
Investment income	(205)	(180)	(80)	(74)
Exchange gain on foreign balances	(2,547)	(1,609)	(2,547)	(1,609)
Interest expense	1,976	3,636	1,878	3,559
Taxation	6,767	7,567	9,254	9,350
	35,450	26,816	36,620	25,634
Changes in operating assets and liabilities:				
Inventories	(5,449)	(415)	(5,539)	(477)
Accounts receivable	(2,847)	2,819	(2,842)	2,824
Pension surplus	(3,426)	(3,449)	(3,426)	(3,449)
Due from subsidiaries	-	-	4,080	2,844
Accounts payable	18,101	8,046	15,570	6,458
	41,829	33,817	44,463	33,834
Interest received	6,331	2,899	6,331	2,899
Taxation withheld	(1,609)	(638)	(1,609)	(639)
Cash provided by operating activities	46,551	36,078	49,185	36,094

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26. Related Party Transactions

(a) Purchases of services

Film rental paid to the parent company for the year amounted to \$61,850,000 (2007 – \$58,400,000). Trade payables include \$3,490,000 (2007 – \$3,825,000) due to the parent company in respect of these expenses.

(b) Key management compensation

	2008 \$'000	2007 \$'000
Wages and salaries	26,005	21,385
Statutory contributions	1,188	1,010
Pension	149	126
Other	2,270	2,006
	<u>29,612</u>	<u>24,527</u>
Directors' emoluments –		
Fees	909	712
Management remuneration (included above)	<u>12,869</u>	<u>10,860</u>

(c) Transactions between the company and its subsidiaries

During the year, the company earned management fees of \$23,086,000 (2007 – \$20,225,000) and film revenue of \$94,994,000 (2007 – \$82,797,000) from a subsidiary.