



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

**Financial Statements
30 June 2011**

The Palace Amusement Company (1921) Limited

Index

30 June 2011

	Page
Independent Auditors' Report to the Members	
Financial Statements	
Consolidated statement of comprehensive income	1
Consolidated statement of financial position	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4
Company statement of comprehensive income	5
Company statement of financial position	6
Company statement of changes in equity	7
Company statement of cash flows	8
Notes to the financial statements	9 – 45



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 45, which comprise the consolidated and company statements of financial position as of 30 June 2011 and the consolidated and company statements of comprehensive income, and statements of changes in equity and statements of 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.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm



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 2011, and of the 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.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

Chartered Accountants
3 October 2011
Kingston, Jamaica

The Palace Amusement Company (1921) Limited

Consolidated Statement of Comprehensive Income

Year ended 30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 \$'000	2010 \$'000
Revenue		725,492	675,638
Direct expenses		(594,853)	(565,649)
Gross Profit		130,639	109,989
Other operating income	6	8,368	16,170
Administration expenses		(120,211)	(107,994)
Operating Profit		18,796	18,165
Finance costs – interest expense		(4,735)	(4,322)
Profit before Taxation		14,061	13,843
Taxation	9	(4,035)	(4,442)
Net Profit		10,026	9,401
Other Comprehensive Income:			
Unrealised gains/(losses) on available-for-sale investments		903	(606)
Total Comprehensive Income		10,929	8,795
Net Profit Attributable to:			
Stockholders of the company	10	10,078	9,547
Non-controlling interest		(52)	(146)
		10,026	9,401
Total Comprehensive Income Attributable to:			
Stockholders of the company		10,955	8,941
Non-controlling interest		(26)	(146)
		10,929	8,795
Earnings per Stock Unit Attributable to Stockholders of the Company	11	\$7.01	\$6.64

The Palace Amusement Company (1921) Limited

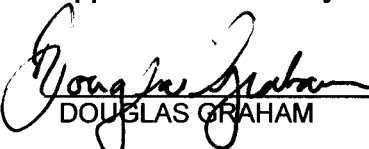
Consolidated Statement of Financial Position

30 June 2011

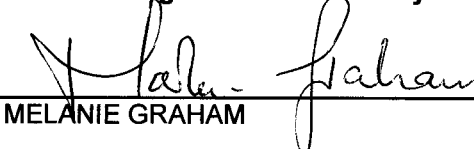
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 \$'000	2010 \$'000
Non-Current Assets			
Property, plant and equipment	12	223,569	180,164
Investments	13	9,055	8,152
Deferred tax assets	14	213	2,144
Post-employment benefit assets	15	31,589	25,036
Current Assets			
Inventories	17	26,058	24,314
Receivables	18	42,312	36,877
Taxation recoverable		3,210	-
Cash and bank balances	19	72,187	106,971
		143,767	168,162
Current Liabilities			
Payables	20	107,334	81,520
Taxation payable		-	6,428
Current portion of long term liabilities	21	5,256	5,037
		112,590	92,985
Net Current Assets			
		31,177	75,177
		295,603	290,673
Stockholders' Equity			
Share capital	22	1,437	1,437
Capital reserve	23	166,488	166,488
Fair value reserve	24	8,951	8,074
Retained earnings	10	85,118	77,196
		261,994	253,195
Non-controlling Interest			
		5,429	5,455
		267,423	258,650
Non-Current Liabilities			
Long term liabilities	21	21,641	25,880
Deferred tax liabilities	14	6,539	6,143
		295,603	290,673

Approved for issue by the Board of Directors on 3 October 2011 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 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Attributable to the Company's Stockholders					Non-Controlling Interest	Total
	Number of Shares	Share Capital	Capital Reserve	Fair Value Reserve	Retained Earnings		
	'000	\$'000	\$'000	\$'000	\$'000		
Balance at 1 July 2009	1,437	1,437	166,488	8,680	67,649	5,601	249,855
Total Comprehensive Income							
Net profit	-	-	-	-	9,547	(146)	9,401
Other comprehensive income	-	-	-	(606)	-	-	(606)
	-	-	-	(606)	9,547	(146)	8,795
Balance at 30 June 2010	1,437	1,437	166,488	8,074	77,196	5,455	258,650
Total Comprehensive Income							
Net profit	-	-	-	-	10,078	(52)	10,026
Other comprehensive income	-	-	-	877	-	26	903
	-	-	-	877	10,078	(26)	10,929
Transactions with owners							
Dividends paid	-	-	-	-	(2,156)	-	(2,156)
Balance at 30 June 2011	1,437	1,437	166,488	8,951	85,118	5,429	267,423

The Palace Amusement Company (1921) Limited

Consolidated Statement of Cash Flows

Year ended 30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

	2011 \$'000	2010 \$'000
Cash Flows from Operating Activities		
Cash provided by operating activities (Note 25)	49,216	42,757
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(76,652)	(23,059)
Proceeds from sale of property, plant and equipment	315	50
Interest received	2,411	4,435
Dividend received	249	336
Cash used in investing activities	<u>(73,677)</u>	<u>(18,238)</u>
Cash Flows from Financing Activities		
Long term loan received	22,759	26,495
Long term loans repaid	(26,779)	(1,723)
Interest paid	(4,735)	(4,322)
Dividends paid	(2,156)	-
Cash (used in)/provided by financing activities	<u>(10,911)</u>	<u>20,450</u>
	<u>(35,372)</u>	<u>44,969</u>
Exchange gain/(loss) on foreign cash balances	588	(1,235)
(Decrease)/increase in cash and cash equivalents	<u>(34,784)</u>	<u>43,734</u>
Cash and cash equivalents at beginning of year	<u>106,971</u>	<u>63,237</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 19)	<u><u>72,187</u></u>	<u><u>106,971</u></u>

The Palace Amusement Company (1921) Limited

Company Statement of Comprehensive Income

Year ended 30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 \$'000	2010 \$'000
Revenue		526,668	487,465
Direct expenses		(416,776)	(403,620)
Gross Profit		109,892	83,845
Other operating income	6	21,351	26,574
Administration expenses		(120,211)	(107,994)
Operating Profit		11,032	2,425
Finance costs – interest expense		(4,571)	(2,824)
Profit/(Loss) before Taxation		6,461	(399)
Taxation	9	(2,104)	370
Net Profit/(Loss)	10	4,357	(29)
Other Comprehensive Income:			
Unrealised gains on available-for-sale investments		639	406
Total Comprehensive Income		4,996	377

The Palace Amusement Company (1921) Limited

Company Statement of Financial Position

30 June 2011

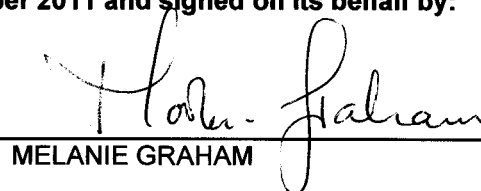
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 \$'000	2010 \$'000
Non-Current Assets			
Property, plant and equipment	12	105,572	80,556
Investments	13	2,679	2,040
Post-employment benefit assets	15	31,589	25,036
Due from subsidiary companies	16	58,517	46,943
Current Assets			
Inventories	17	24,026	22,718
Receivables	18	42,312	36,732
Taxation recoverable		3,210	-
Cash and bank balances	19	71,077	105,971
		140,625	165,421
Current Liabilities			
Payables	20	96,181	69,983
Taxation payable		-	6,428
Current portion of long term liabilities	21	5,256	5,037
		101,437	81,448
Net Current Assets			
		39,188	83,973
		237,545	238,548
Stockholders' Equity			
Share capital	22	1,437	1,437
Capital reserve	23	148,365	148,365
Fair value reserve	24	2,122	1,483
Retained earnings	10	57,441	55,240
		209,365	206,525
Non-Current Liabilities			
Long term liabilities	21	21,641	25,880
Deferred tax liabilities	14	6,539	6,143
		237,545	238,548

Approved for issue by the Board of Directors on 3 October 2011 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 2011

(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 2009	1,437	1,437	148,365	1,077	55,269	206,148
Total Comprehensive Income						
Net loss	-	-	-	-	(29)	(29)
Other comprehensive income	-	-	-	406	-	406
	-	-	-	406	(29)	377
Balance at 30 June 2010	1,437	1,437	148,365	1,483	55,240	206,525
Total Comprehensive Income						
Net profit	-	-	-	-	4,357	4,357
Other comprehensive income	-	-	-	639	-	639
				639	4,357	4,996
Transactions with owners						
Dividends paid	-	-	-	-	(2,156)	(2,156)
Balance at 30 June 2011	1,437	1,437	148,365	2,122	57,441	209,365

The Palace Amusement Company (1921) Limited

Company Statement of Cash Flows

Year ended 30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

	2011 \$'000	2010 \$'000
Cash Flows from Operating Activities		
Cash provided by operating activities (Note 25)	14,924	38,160
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(44,548)	(20,357)
Proceeds from sale of property, plant and equipment	254	50
Interest received	4,507	4,435
Dividend received	128	139
Cash used in investing activities	<u>(39,659)</u>	<u>(15,733)</u>
Cash Flows from Financing Activities		
Long term loan received	22,759	26,495
Long term loans repaid	(26,779)	(1,723)
Interest paid	(4,571)	(2,824)
Dividends paid	(2,156)	-
Cash (used in)/provided by financing activities	<u>(10,747)</u>	<u>21,948</u>
	(35,482)	44,375
Exchange gain/(loss) on foreign cash balances	588	(1,235)
(Decrease)/increase in cash and cash equivalents	(34,894)	43,140
Cash and cash equivalents at beginning of year	105,971	62,831
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 19)	<u><u>71,077</u></u>	<u><u>105,971</u></u>

During the year, property, plant and equipment additions included an inter-company transfer of cinema equipment with a net book value of \$6,750,000.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(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 the parent company, is 1A South Camp Road, Kingston.

The company is listed on the Jamaica Stock Exchange.

Films are rented from:

- (i) United International Pictures, which represents Universal Pictures, Paramount Pictures, and Dreamworks;
- (ii) Vista Entertainment Panama, which represents Disney;
- (iii) Independent Film Distributors of Trinidad; and
- (iv) 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 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 financial statements, are disclosed in Note 4.

Amendments to published standards effective in current year that are relevant to the Group's operations

- IFRS 8 (Amendment), 'Operating Segments,' (effective for annual periods beginning on or after 1 January 2010). The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. This amendment has had no impact on the presentation of segment assets or liabilities.
- IAS 7 (Amendment), 'Statement of Cash Flows,' (effective for annual periods beginning on or after 1 January 2010). This amendment states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment had no impact on the Group's financial statements.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards not yet effective and have not been early adopted by the Group

- IAS 1 (Amendment), 'Presentation of Financial Statements', issued in May 2010 as part of the annual improvements to IFRS (effective for annual periods beginning on or after 1 January 2011). This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. This amendment is applied retrospectively. The adoption of this amendment will result in the company presenting an analysis of other comprehensive income in the statement of changes in equity.
- IFRS 7, 'Financial Instruments Disclosures', (effective for annual periods beginning on or after 1 January 2011). This amendment clarifies the disclosure requirement by emphasizing the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Amendments were made to quantitative and credit risk disclosures. The adoption of this amendment will result in changes in the presentation of credit risk disclosures.
- IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after 1 January 2013). IFRS 9 addresses classification and measurement of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

Classification of financial assets under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9 also removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortised cost or fair value.

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements, including amortised cost accounting for most financial liabilities and the requirement to separate embedded derivatives. The main change is where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch. The adoption of IFRS 9 is currently not expected to have a material impact on the Group's financial position or results.

- IAS 24 (Revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this standard is not expected to have a significant impact on the Group's financial statements.
- IAS 27 (Revised), 'Separate financial statements' (effective for annual periods beginning on or after 1 January 2013). The revised standard now only includes the requirements for separate financial statements. There have been no significant changes to these requirements as presented under IAS 27 'Consolidated and Separate Financial Statements'. The requirements for consolidated financial statements are now included in IFRS 10 'Consolidated Financial Statements'.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards not yet effective and have not been early adopted by the Group (continued)

- IFRS 10, 'Consolidated Financial Statements', (effective for annual periods beginning on or after 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and Separate Financial Statements', and SIC-12, 'Consolidation – Special Purpose Entities'. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within a group's consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The adoption of this standard is not expected to have a significant impact on the Group's financial statements.
- IFRS 12, 'Disclosure of Interests in Other Entities', (effective for annual periods beginning on or after 1 January 2013). IFRS 12 requires entities to disclose information that helps financial statement users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The adoption of this standard will result in additional disclosures.
- IFRS 13, 'Fair Value Measurement', (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The requirements are similar to those in IFRS 7, 'Financial instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities. The adoption of this standard is not expected to have a significant impact on the Group's financial statements.
- IFRIC 14 (Amendments), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset, some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted and should be applied retrospectively. The Group will apply these amendments for the financial reporting period commencing on 1 July 2011.
- IASB Annual Improvements 2010. In May 2010, the IASB published amendments to six standards and one IFRIC interpretation resulting from its Annual Improvements Project. The effective date for most amendments is annual periods beginning on or after 1 January 2011. Details of the amendment to IAS 1 and IFRS 7 are disclosed above. The Group is assessing the impact of future adoption of the other amendments on its financial statements.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations, and amendments to published standards not yet effective and have not been early adopted by the Group (continued)

- IAS 1 (Amendment), 'Financial Statement presentation' (effective for annual periods beginning on or after 1 July 2012). This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. In particular, items of other comprehensive income are required to be classified into those that will and will not be reclassified to profit or loss. The adoption of this standard is not expected to have a significant impact on the Group's financial statements.
- IAS 19 (Revised), 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013). IAS 19 (Revised) makes significant changes to the recognition and measurement of defined benefit pension expense, termination benefits, and to the disclosures for all employee benefits. In particular, the revised standard eliminates the 'corridor approach' and requires changes in the defined benefit obligation and the fair value of plan assets to be recognised immediately. Actuarial gains and losses will now be recognised in other comprehensive income; the option to recognise actuarial gains and losses in profit and loss has been removed.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has the 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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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%

(ii) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Jamaican dollars, which is the company's functional presentation currency.

(ii) Transactions and balances

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated to Jamaican dollars using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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 profit or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in equity.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(d) Property, plant and equipment

Items of property, plant and equipment are recorded at historical or deemed cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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 property, plant and equipment are as follows:

Theatre and other buildings	40 years
Leasehold improvements	10 years
Equipment and fixtures	10 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(e)).

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

When revalued assets, currently carried at deemed cost are sold, the amounts included in other reserves relating to the revaluation surpluses will be transferred to retained earnings.

(e) Impairment of non-current assets

Property, plant and equipment 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. Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) 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

(i) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents'.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial asset within 12 months of the reporting date. 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.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value, with fair value gains or losses being recorded in other comprehensive income. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Translation differences and changes in the fair value of non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognised as other comprehensive income are recycled to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other operating income when the Group's right to receive payments is established.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) Financial instruments (continued)

Financial assets (continued)

(i) Recognition and measurement (continued)

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. Impairment testing of trade receivables is described in note 2(h).

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 reporting date, the following items were classified as financial liabilities: bank overdraft, long term loans and trade payables.

(g) Inventories

Inventories are stated at the lower of cost and fair value less costs to sell, cost being determined on the first-in, first-out basis. Fair value less costs to sell is the estimated selling price in the ordinary course of business, less 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. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position 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.

(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 profit or loss over the period of the borrowings.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(k) Current and deferred income taxes

Taxation expense in profit or loss 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 Group's liability for current tax is calculated at tax rates that have been enacted at the reporting 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. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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 to profit or loss, except where it relates to items charged or credited to other comprehensive income, in which case deferred tax is also dealt with in other comprehensive income.

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 and are not subject to tax.

(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 plans are generally funded through payments to trustee administered funds, determined by periodic actuarial calculations.

The asset or liability in respect of a defined benefit plan is the difference between the present value of the defined benefit obligation at the reporting 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 and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past service costs relating to changes in plan benefits are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case the past service costs are amortised on a straight line basis over the vesting period.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(m) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(n) Revenue recognition

Group revenue comprises box office receipts, theatre confectionery sales, advertising and rental income. Box office receipts and concession sales are cash sales and are recognised when cash is collected. Advertising and rental income are recognised on an accrual basis in accordance with the substance of the underlying contracts. Revenue is shown net of General Consumption Tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described above.

(o) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Operating segments are reported in a manner consistent with internal reporting to the Group's chief operating decision maker.

(p) Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

(q) Related party balances and transactions

Parties are considered to be related if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with the entity (this includes parents, subsidiaries and fellow subsidiaries), has significant influence over the entity or has joint control over the entity. Related party balances and transactions are recognised and disclosed for the following:

- (i) Enterprises and individuals owning directly or indirectly an interest in the voting power of the Group, significant influence over the Group's affairs and close members of the family of these individuals.
- (ii) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers and close members of the families of these individuals.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(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, 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 film rental income and US dollar cash and bank balances. 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.

Concentration of currency risk

The Group and company are exposed to foreign currency risk in respect of US dollar receivables and cash and bank balances amounting to \$16,979,000 (2010 – \$12,333,000) and \$37,685,000 (2010 – \$53,580,000) respectively.

Foreign currency sensitivity

The following table indicates the sensitivity of profit before taxation to changes in foreign exchange rates. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated cash and bank and accounts receivable balances, and adjusts their translation at the year-end for 1% (2010 – 5%) depreciation and a 1% (2010 – 1%) appreciation of the Jamaican dollar against the US dollar. The changes below would have no impact on other components of equity.

The Group and Company				
	% Change in Currency Rate	Effect on Profit before Tax	% Change in Currency Rate	Effect on Profit before Tax Equity
	2011	30 June 2011 \$'000	2010	30 June 2010 \$'000
Currency:				
USD	-1	364	-5	2,174
USD	+1	(364)	+1	(435)

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

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.

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.

Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed rate instruments expose the Group to fair value interest rate risk.

The Group is primarily exposed to cash flow interest rate risk on its short term deposits and variable rate borrowings. 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.

There is no significant exposure to interest rate risk on short term deposits, as these deposits have a short term to maturity and are constantly reinvested at current market rates.

There is no significant exposure to interest rate risk on borrowings, as the Group does not have significant variable rate borrowings at year end.

(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.

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, the Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(ii) Credit risk (continued)

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.

The table below shows the Group's and company's maximum exposure to credit risk.

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Credit risk exposures are as follows:				
Due from subsidiary companies	-	-	58,517	46,943
Trade receivables	23,578	17,863	23,578	17,863
Other receivables	11,991	7,398	11,991	7,253
Cash and bank balances (excluding cash on hand)	69,567	104,677	69,567	104,677
	105,136	129,938	163,653	176,736

There was no renegotiation of terms for trade or other receivables during 2011 (2010 – no instances).

Trade receivables that are past due but not impaired

As at 30 June 2011, trade receivables of \$1,431,000 (2010 - \$1,054,000) were past due but not impaired. These relate to independent customers for whom there is no recent history of default.

Trade receivables that are past due and impaired

As of 30 June 2011, trade receivables of \$776,000 (2010 - \$2,257,000) were impaired. The amount of the provision was \$776,000 (2010 – \$2,257,000). These receivables were aged over 90 days.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(ii) Credit risk (continued)

Trade receivables that are past due and impaired (continued)

Movements on the provision for impairment of trade receivables are as follows:

	<u>The Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
At 1 July	2,257	3,244
Provision for receivables impairment	131	163
Bad debts recovered, previously provided for	(1,449)	(1,150)
Receivables written off during the year as uncollectible	(163)	-
At 30 June	<u>776</u>	<u>2,257</u>

The creation and release of provision for impaired receivables have been included in expenses in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. Impairment estimates have been adjusted based on actual collection patterns.

Concentration of risk – trade receivables

The following table summarises the Group's and company's credit exposure for trade receivables at their carrying amounts, as categorised by the customer sector:

	<u>The Group and Company</u>	
	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Independent cinemas	18,699	12,166
Advertising agencies	3,830	7,185
Other	1,825	769
	<u>24,354</u>	<u>20,120</u>
Less: Provision for credit losses	(776)	(2,257)
	<u>23,578</u>	<u>17,863</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

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, and 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 bi-weekly basis.
- (ii) Maintaining a portfolio of short term deposit balances 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 investments.

Cash flows of financial liabilities

The maturity profile of the Group's and company's financial liabilities, based on contractual undiscounted payments, is as follows:

	The Group				
	Within 1 Year \$'000	1 to 2 Years \$'000	2 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
As at 30 June 2011					
Trade payables	51,538	-	-	-	51,538
Accruals and other payables	45,935	-	-	-	45,935
Long term liabilities	8,295	7,813	16,787	2,466	35,361
Total financial liabilities (contractual maturity dates)	105,768	7,813	16,787	2,466	132,834
As at 30 June 2010					
Trade payables	35,444	-	-	-	35,444
Accruals and other payables	36,495	-	-	-	36,495
Long term liabilities	9,115	8,588	20,330	5,936	43,969
Total financial liabilities (contractual maturity dates)	81,054	8,588	20,330	5,936	115,908

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk (continued)

Cash flows of financial liabilities (continued)

	The Company				Total \$'000
	Within 1 Year \$'000	1 to 2 Years \$'000	2 to 5 Years \$'000	Over 5 years \$'000	
As at 30 June 2011					
Trade payables	51,538	-	-	-	51,538
Accruals and other payables	38,735	-	-	-	38,735
Long term liabilities	8,295	7,813	16,787	2,466	35,361
Total financial liabilities (contractual maturity dates)	98,568	7,813	16,787	2,466	125,634
As at 30 June 2010					
Trade payables	35,444	-	-	-	35,444
Accruals and other payables	29,541	-	-	-	29,541
Long term liabilities	9,115	8,588	20,330	5,936	43,969
Total financial liabilities (contractual maturity dates)	74,100	8,588	20,330	5,936	108,954

Assets available to meet all of the liabilities and to cover financial liabilities include cash and short term deposits.

(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. There are also no external capital maintenance requirements to which the Group is subject.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Fair value estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument. The standard requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

- (i) Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (ii) Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- (iii) Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The only financial asset that is re-measured at fair value after initial recognition, available-for-sale equities of \$9,055,000 (2010 - \$8,152,000) and \$2,194,000 (2010 - \$1,555,000) for the Group and company respectively are all classified as Level 1.

There were no transfers between levels during the year.

The fair value of financial instruments traded in active markets, such as available-for-sale investments, is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1 and comprise equity instruments traded on the Jamaica Stock Exchange and Trinidad and Tobago Stock Exchange.

The fair values of financial instruments that are not traded in an active market are deemed to be/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, receivables and payables.
- (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.
- (iii) The fair value of the due from subsidiaries balance could not be reasonably determined as there is no set repayment date. The company has however indicated that it will not demand repayment of any portion of the balances receivable until after 1 July 2012.
- (iv) The fair value of unquoted equity instruments could not be determined as there is no active market for it.

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.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

(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 and the discount rate. 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 Government of Jamaica 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. Other key assumptions for the retirement benefits are based on current market conditions.

5. Segment Reporting

The Group is managed in three main business segments based on business activities. The designated segments are as follows:

- (i) Cinema activities, which comprise mainly theatre operations and the sales of confectionery items;
- (ii) Film activities, which comprise the purchase of films from distributors and the rental of films to cinema operators throughout the Caribbean; and
- (ii) Screen advertising activities.

Interest expense is included in the measure of segment results for Carib and Palace Cineplex (2010 – Carib, Palace Cineplex and Palace Multiplex); however the remaining interest expense is not reviewed by the other reportable segments.

Interest income is not included as a measure of segment results as it is not regularly reviewed by the chief operating decision maker.

Deferred tax assets and post-employment benefit assets are not included as a measure of segment assets as these are not regularly reviewed by the chief operating decision maker.

Major customers comprise independent movie patrons who attend cinemas throughout the Group.

Revenue from film activities includes \$35,681,000 (2010 - \$34,769,000) earned from other Caribbean Countries.

Segment eliminations comprise film rental charged to the cinemas and management fees charged by head office.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

(1) Profit from the reportable segments is reconciled to the Group's profit before taxation as follows:

	<u>The Group</u>	
	2011	2010
	\$'000	\$'000
Profit from reportable segments	128,028	108,272
Unallocated income -		
Other operating income	8,368	16,170
Unallocated costs -		
Administrative expenses	(120,211)	(107,994)
Other	(698)	(441)
	(120,909)	(108,435)
Unallocated interest expense	(3,522)	(2,164)
Eliminations	2,096	-
	(1,426)	(2,164)
	<u>14,061</u>	<u>13,843</u>

(2) Reportable segments' assets are reconciled to the Group's total assets as follows:

	<u>The Group</u>	
	2011	2010
	\$'000	\$'000
Segment assets from reportable segments	210,481	174,503
Unallocated assets -		
Property, plant and equipment	20,248	11,550
Investments	9,055	8,152
Deferred tax assets	213	2,144
Post-employment benefit assets	31,589	25,036
Inventories	21,435	20,638
Receivables	42,312	36,877
Taxation recoverable	3,210	-
Cash and bank balances	69,650	104,758
	<u>408,193</u>	<u>383,658</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

⁽³⁾ Reportable segments' liabilities are reconciled to the Group's total liabilities as follows:

	<u>The Group</u>	
	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>
Segment liabilities from reportable segments	33,700	25,817
Unallocated liabilities -		
Deferred tax liabilities	6,539	6,143
Long term loan – PanCaribbean Bank Limited	4,138	5,100
Taxation payable	-	6,428
Payables	96,393	81,520
	<u>140,770</u>	<u>125,008</u>

6. Other Operating Income

	<u>The Group</u>		<u>The Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Management fees	-	-	11,152	10,601
Interest income	3,359	5,457	5,455	5,457
Dividend income	249	336	128	139
Net foreign exchange gains	446	8,217	446	8,217
Gain/(loss) on sale of property, plant and equipment	254	(3)	254	(3)
Other	4,060	2,163	3,916	2,163
	<u>8,368</u>	<u>16,170</u>	<u>21,351</u>	<u>26,574</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

7. Expenses by Nature

Total direct and administration expenses:

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Advertising and promotion	21,243	23,332	12,354	13,443
Auditors' remuneration	3,347	3,313	2,667	2,664
Bank security and fees	5,577	4,729	2,776	2,454
Cost of inventories recognised as expense	94,426	95,713	39,037	40,040
Depreciation	33,187	27,011	26,282	21,567
Film cost	211,674	206,617	211,674	206,617
Insurance	12,407	11,923	7,374	7,165
Legal and professional fees	2,233	2,265	1,233	1,848
Licence fees	4,499	4,234	2,182	2,007
Motor vehicle expenses	4,662	4,932	4,662	4,932
Other	18,586	14,023	14,136	12,651
Repairs, maintenance and renewals	31,833	24,778	18,877	17,126
Security	18,065	16,148	8,680	7,828
Staff costs (Note 8)	155,904	143,059	119,649	109,521
Stationery and supplies	18,980	15,588	11,411	9,972
Theatre rental	22,354	21,967	22,354	21,967
Transportation and courier	1,644	2,052	1,511	1,946
Utilities	54,443	51,959	30,128	27,866
	<u>715,064</u>	<u>673,643</u>	<u>536,987</u>	<u>511,614</u>

8. Staff Costs

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Wages and salaries	131,058	114,377	102,471	88,182
Payroll taxes – Employer's portion	12,779	10,441	9,485	7,589
Pension (Note 15)	(5,792)	634	(5,792)	634
Other	17,859	17,607	13,485	13,116
	<u>155,904</u>	<u>143,059</u>	<u>119,649</u>	<u>109,521</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

9. Taxation Expense

Taxation is computed on the profit/(loss) for the year adjusted for tax purposes and comprises income tax at 33½%:

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current taxation	1,708	7,333	1,708	7,333
Deferred taxation (Note 14)	2,327	(2,891)	396	(7,703)
	<u>4,035</u>	<u>4,442</u>	<u>2,104</u>	<u>(370)</u>

The tax on the profit/(loss) before taxation differs from the theoretical amount that would arise using the applicable tax rate of 33½%, as follows:

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Profit/(loss) before taxation	14,061	13,843	6,461	(399)
Tax calculated at a tax rate of 33½%	4,687	4,614	2,154	(133)
Adjusted for the effects of:				
Income not subject to tax	(859)	(113)	(43)	(46)
Disallowed expenses	246	655	32	523
Other	(39)	(714)	(39)	(714)
	<u>4,035</u>	<u>4,442</u>	<u>2,104</u>	<u>(370)</u>

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

	2011 \$'000	2010 \$'000
(a) Net profit/(loss) attributable to the stockholders of the company is dealt with as follows in the financial statements of:		
The company	4,357	(29)
The subsidiaries	5,721	9,576
	<u>10,078</u>	<u>9,547</u>
(b) Retained earnings attributable to the stockholders of the company are dealt with as follows in the financial statements of:		
The company	57,441	55,240
The subsidiaries	27,677	21,956
	<u>85,118</u>	<u>77,196</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

11. Earnings Per Stock Unit

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

	2011	2010
Net profit attributable to stockholders (\$'000)	10,078	9,547
Number of ordinary stock units ('000)	1,437	1,437
Earnings per stock unit (\$ per share)	<u>7.01</u>	<u>6.64</u>

The company has no potentially dilutive ordinary shares.

12. Property, Plant and Equipment

The Group

	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Improvements \$'000	Equipment, Fixtures & Motor Vehicles \$'000	Total \$'000
Cost or deemed cost -						
At 1 July 2009	19,883	72,280	1,183	63,051	273,320	429,717
Additions	-	-	1,020	-	22,039	23,059
Disposals	-	-	-	-	(61)	(61)
At 30 June 2010	19,883	72,280	2,203	63,051	295,298	452,715
Additions	-	-	-	310	76,342	76,652
Disposals	-	-	-	-	(798)	(798)
At 30 June 2011	19,883	72,280	2,203	63,361	370,842	528,569
Depreciation -						
At 1 July 2009	-	22,032	470	45,606	177,440	245,548
Charge for the year	-	1,807	38	5,887	19,279	27,011
Relieved on disposal	-	-	-	-	(8)	(8)
At 30 June 2010	-	23,839	508	51,493	196,711	272,551
Charge for the year	-	1,807	45	5,906	25,429	33,187
Relieved on disposal	-	-	-	-	(738)	(738)
At 30 June 2011	-	25,646	553	57,399	221,402	305,000
Net Book Value -						
30 June 2011	19,883	46,634	1,650	5,962	149,440	223,569
30 June 2010	19,883	48,441	1,695	11,558	98,587	180,164

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

12. Property, Plant and Equipment (Continued)

	The Company					Total \$'000
	Freehold Land \$'000	Theatre Buildings \$'000	Other Buildings \$'000	Leasehold Improvements \$'000	Equipment, Fixtures & Motor Vehicles \$'000	
Cost or deemed cost -						
At 1 July 2009	1,010	6	1,183	63,051	177,839	243,089
Additions	-	-	1,020	-	19,337	20,357
Disposals	-	-	-	-	(61)	(61)
At 30 June 2010	1,010	6	2,203	63,051	197,115	263,385
Additions	-	-	-	310	50,988	51,298
Disposals	-	-	-	-	(729)	(729)
At 30 June 2011	1,010	6	2,203	63,361	247,374	313,954
Depreciation -						
At 1 July 2009	-	2	470	45,606	115,192	161,270
Charge for the year	-	-	38	5,887	15,642	21,567
Relieved on disposal	-	-	-	-	(8)	(8)
At 30 June 2010	-	2	508	51,493	130,826	182,829
Charge for the year	-	-	45	5,906	20,331	26,282
Relieved on disposal	-	-	-	-	(729)	(729)
At 30 June 2011	-	2	553	57,399	150,428	208,382
Net Book Value -						
30 June 2011	1,010	4	1,650	5,962	96,946	105,572
30 June 2010	1,010	4	1,695	11,558	66,289	80,556

Deemed cost of the freehold land and buildings includes revaluation surpluses of \$2,231,000 (2010 - \$2,231,000) and \$1,373,000 (2010 - \$1,373,000) for the Group and company respectively. These revaluation surpluses were designated as part of the deemed cost on adoption of IFRS in 2002.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

13. Investments

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Quoted equities – available for sale at fair value	9,055	8,152	2,194	1,555
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>9,055</u>	<u>8,152</u>	<u>2,679</u>	<u>2,040</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 33%.

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	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Deferred tax assets	213	2,144	-	-
Deferred tax liabilities	(6,539)	(6,143)	(6,539)	(6,143)
	<u>(6,326)</u>	<u>(3,999)</u>	<u>(6,539)</u>	<u>(6,143)</u>

The movement in deferred taxation is as follows:

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Balance at start of year	(3,999)	(6,890)	(6,143)	(13,846)
(Charge)/credit for the year (Note 9)	(2,327)	2,891	(396)	7,703
Balance at end of year	<u>(6,326)</u>	<u>(3,999)</u>	<u>(6,539)</u>	<u>(6,143)</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

14. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Deferred tax assets to be recovered after more than 12 months	8,857	7,510	3,385	2,089
Deferred tax liabilities to be settled after more than 12 months	(15,789)	(11,622)	(10,530)	(8,345)

Deferred taxation is due to the following temporary differences:

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Tax loss carry forwards	5,472	5,421	-	-
Unrealised foreign exchange losses/(gains)	821	603	821	603
(Accelerated)/decelerated capital allowances	(1,874)	(1,188)	3,385	2,089
Pension surplus	(10,530)	(8,345)	(10,530)	(8,345)
Interest receivable	(215)	(490)	(215)	(490)
	(6,326)	(3,999)	(6,539)	(6,143)

Deferred taxation (charged)/credited to profit or loss comprises the following temporary differences:

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Tax loss carry forwards	51	(4,286)	-	-
Unrealised foreign exchange gains and losses	218	4,534	218	4,534
Decelerated/(accelerated) capital allowances	(686)	3,111	1,296	3,637
Pension surplus	(2,185)	(6)	(2,185)	(6)
Interest receivable	275	(462)	275	(462)
	(2,327)	2,891	(396)	7,703

Deferred income tax assets are recognised for tax losses carried forward 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 \$17,884,000 for the Group and \$nil for the company (2010– \$17,726,000 and \$nil, 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 2011

(expressed in Jamaican dollars unless otherwise indicated)

14. Deferred Income Taxes (Continued)

No deferred tax assets have been recognised on tax losses amounting to \$247,000 (2010 - \$247,000) and \$1,221,000 (2010 - \$1,221,000) for Tropical Cinema Company Limited and Harbour View Cinema Company Limited respectively as there are significant doubts that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax liabilities have not been provided for withholding and other taxes that would be payable on the undistributed earnings of certain subsidiaries to the extent that such earnings are permanently reinvested, and will be tax free if distributed. Such undistributed earnings totalled \$49,889,000 (2010 - \$44,220,000).

15. Post-employment Benefit assets

	The Group and The Company	
	2011	2010
	\$'000	\$'000
Amounts recognised in the statement of financial position		
Head office employees pension plan	22,088	22,028
Cinema employees pension plan	9,501	3,008
	<u>31,589</u>	<u>25,036</u>
(Credit)/debit recognised in profit or loss (Note 8) –		
Head office employees pension plan	(433)	3,231
Cinema employees pension plan	6,225	(3,865)
	<u>5,792</u>	<u>(634)</u>

Head office employees pension plan

The company participates in a defined benefit plan, 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 plan

The company participates in a defined benefit plan which is open to all permanent cinema employees and administered by Sagicor Life 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 plans are valued annually by independent actuaries. The latest actuarial valuation was done as at 30 June 2011.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

15. Post-employment Benefit Assets (Continued)

The amounts recognised in the statement of financial position in respect of each plan were determined as follows:

	Head office employees pension plan		Cinema employees pension plan	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Fair value of plan assets	143,500	126,708	50,002	43,045
Present value of funded obligations	(116,730)	(90,611)	(40,501)	(40,037)
	26,770	36,097	9,501	3,008
Unrecognised actuarial (gains)/losses	(4,682)	(14,069)	3,024	12,221
Unrecognised asset due to limit in 58(b)	-	-	(3,024)	(12,221)
Asset in the balance sheet	22,088	22,028	9,501	3,008

The (debit)/credit recognised in profit or loss in respect of each plan was as follows:

	Head office employees pension plan		Cinema employees pension plan	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current service cost	(5,765)	(3,253)	(3,725)	(3,285)
Interest cost	(10,986)	(12,877)	(3,808)	(5,201)
Employee contributions	3,469	2,905	1,383	1,332
Expected return on plan assets	12,783	12,208	3,644	6,455
Actuarial gains/(losses) recognised	66	536	(466)	(331)
Change in income not eligible for recognition due to limit	-	3,712	9,197	(2,835)
Total included in staff costs	(433)	3,231	6,225	(3,865)

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

15. Post-employment Benefit Assets (Continued)

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

	Head office employees pension plan		Cinema employees pension plan	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Balance at start of year	126,708	109,698	43,045	37,626
Purchased annuities	-	-	1,929	-
Employee contributions	3,469	2,905	1,383	1,332
Employer contributions	493	397	268	257
Expected return on plan assets	12,783	12,208	3,644	6,455
Benefits paid	(1,688)	(736)	(1,998)	(868)
Actuarial gains/(losses)	1,735	2,236	1,731	(1,757)
Balance at end of year	143,500	126,708	50,002	43,045

The actual return on plan assets was \$14,518,000 (2010 – \$14,444,000) for the head office employees plan and \$5,375,000 (2010 - \$5,659,000) for the cinema employees plan.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment portfolio. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting 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 2012 amount to \$570,000 for the head office employees plan and \$298,000 for the cinema employees plan.

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

	Head office employees pension plan		Cinema employees pension plan	
	2011 %	2010 %	2011 %	2010 %
Pooled investment funds –				
Equity Fund	16	18	19	18
Mortgage and Real Estate Fund	-	-	17	17
Fixed Income Fund	63	56	4	7
Money Market Fund	8	11	33	36
Foreign Currency Fund	-	-	23	22
Other	13	15	4	-
	100	100	100	100

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

15. Post-employment Benefit Assets (Continued)

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

	Head office employees pension plan		Cinema employees pension plan	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Balance at start of year	(90,611)	(64,892)	(40,037)	(31,010)
Purchased annuities	-	-	(1,929)	-
Current service cost	(5,765)	(3,253)	(3,725)	(3,285)
Interest cost	(10,986)	(12,877)	(3,808)	(5,201)
Benefits paid	1,688	736	1,998	868
Actuarial (losses)/gains	(11,056)	(10,325)	7,000	(1,409)
	<u>(116,730)</u>	<u>(90,611)</u>	<u>(40,501)</u>	<u>(40,037)</u>

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 plan are as follows:

	Head office employees pension plan				
	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Fair value of plan assets	143,500	126,708	109,698	103,856	85,237
Defined benefit obligation	(116,730)	(90,611)	(64,892)	(56,946)	(49,693)
Surplus	<u>26,770</u>	<u>36,097</u>	<u>44,806</u>	<u>46,910</u>	<u>35,544</u>
Experience adjustments –					
Fair value of plan assets	1,735	2,236	(2,659)	8,283	1,183
Defined benefit obligation	2,130	(2,296)	4,193	4,026	(2,492)
	<u>1,735</u>	<u>2,236</u>	<u>(2,659)</u>	<u>8,283</u>	<u>1,183</u>
	Cinema employees pension plan				
	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Fair value of plan assets	50,002	43,045	37,626	36,529	33,084
Defined benefit obligation	(40,501)	(40,037)	(31,010)	(18,888)	(18,075)
Surplus	<u>9,501</u>	<u>3,008</u>	<u>6,616</u>	<u>17,641</u>	<u>15,009</u>
Experience adjustments –					
Fair value of plan assets	1,731	(1,757)	(5,652)	(1,209)	590
Defined benefit obligation	(2,221)	(3,803)	2,139	(1,111)	(567)
	<u>1,731</u>	<u>(1,757)</u>	<u>(5,652)</u>	<u>(1,209)</u>	<u>590</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

15. Post-employment Benefit Assets (Continued)

The principal actuarial assumptions used were as follows:

	Head office employees pension plan		Cinema employees pension plan	
	2011	2010	2011	2010
Discount rate	10.5%	11.5%	10.5%	11.5%
Expected return on plan assets	10.0%	10.0%	6.5%	8.5%
Long term inflation rate	6.50%	7.5%	6.5%	7.5%
Future salary increases	8.0%	8.5%	5.5%	7.5%
Future pension increases	-	-	6.0%	7.5%
Expected remaining working lives (years)	21.6	21.9	22.0	17.0

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

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. The balances are classified as non-current as the company has expressed its intention to not demand repayment of any portion of the balance until after 1 July 2012.

17. Inventories

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cinemas	4,623	3,676	2,591	2,080
General stores	22,155	21,385	22,155	21,385
	26,778	25,061	24,746	23,465
Less: Provision for obsolescence	(720)	(747)	(720)	(747)
	26,058	24,314	24,026	22,718

18. Receivables

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade receivables	23,578	17,863	23,578	17,863
Prepayments	6,743	11,616	6,743	11,616
Other	11,991	7,398	11,991	7,253
	42,312	36,877	42,312	36,732

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

19. Cash and Cash Equivalents

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

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash at bank and in hand	37,231	28,859	36,121	27,859
Short term deposits	34,956	78,112	34,956	78,112
	<u>72,187</u>	<u>106,971</u>	<u>71,077</u>	<u>105,971</u>

Short term deposits include interest receivable amounting to \$646,000 (2010 – \$1,470,000).

The weighted average interest rate on short term deposits denominated in Jamaican dollars and United States dollars was 8% and 4%, respectively (2010 – 9% and 5%, respectively) and these deposits mature within 90 days.

20. Payables

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade payables	51,538	35,444	51,538	35,444
Accruals and other payables	55,796	46,076	44,643	34,539
	<u>107,334</u>	<u>81,520</u>	<u>96,181</u>	<u>69,983</u>

21. Borrowings

(a) Bank overdraft

In the event that there is an overdraft balance with the bank, the Group and company have bank overdraft facilities totalling \$25,000,000 which attract interest at 14% (2010 – 24.50%) and are immediately rate sensitive.

(b) Long term liabilities

	The Group & The Company	
	2011 \$'000	2010 \$'000
PanCaribbean Bank Limited	4,138	5,100
Development Bank of Jamaica Limited	-	25,817
Bank of Nova Scotia Jamaica Limited	22,759	-
	<u>26,897</u>	<u>30,917</u>
Less: Current portion	(5,256)	(5,037)
	<u>21,641</u>	<u>25,880</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

21. Borrowings (Continued)

(b) Long term liabilities (continued)

- (i) The PanCaribbean Bank Limited loan incurs interest at a rate of 19.45% (2010 - 20%) and is repayable in April 2014. The loan is secured by a bill of sale over motor vehicles.
- (ii) The Development Bank of Jamaica Limited loan incurred interest at a rate of 13% and was repaid during the year. This loan was re-financed through Bank of Nova Scotia Jamaica Limited during the year. The loan was secured by a first mortgage over the Carib Cinema.
- (iii) The Bank of Nova Scotia Jamaica Limited loan incurs interest at a rate 11% and is repayable in January 2017. The loan is secured by a first mortgage over the Carib Cinema.

22. Share Capital

	2011 \$'000	2010 \$'000
Authorised - 1,500,000 ordinary shares		
Issued and fully paid - 1,437,028 stock units of no par value	<u>1,437</u>	<u>1,437</u>

23. Capital Reserve

	<u>The Group</u>		<u>The Company</u>	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Surplus on assets carried at deemed cost	2,231	2,231	1,373	1,373
Realised capital gains	163,868	163,868	146,992	146,992
Other	389	389	-	-
	<u>166,488</u>	<u>166,488</u>	<u>148,365</u>	<u>148,365</u>

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 2011

(expressed in Jamaican dollars unless otherwise indicated)

25. Cash Provided By Operating Activities

	The Group		The Company	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Net profit/(loss)	10,026	9,401	4,357	(29)
Items not affecting cash resources:				
Depreciation	33,187	27,011	26,282	21,567
(Gain)/loss on sale of property, plant and equipment	(254)	3	(254)	3
Interest income	(3,359)	(5,457)	(5,455)	(5,457)
Dividend income	(249)	(336)	(128)	(139)
Exchange gain on foreign balances	(446)	(8,217)	(446)	(8,217)
Interest expense	4,735	4,322	4,571	2,824
Taxation	4,035	4,442	2,104	(370)
	<u>47,675</u>	<u>31,169</u>	<u>31,031</u>	<u>10,182</u>
Changes in operating assets and liabilities:				
Inventories	(1,744)	(2,362)	(1,308)	(2,693)
Receivables	(5,578)	2,826	(5,722)	2,734
Pension surplus	(6,553)	(20)	(6,553)	(20)
Due from subsidiaries	-	-	(18,324)	18,053
Payables	25,814	11,144	26,198	9,904
	<u>59,614</u>	<u>42,757</u>	<u>25,322</u>	<u>38,160</u>
Taxation recovered	(10,398)	-	(10,398)	-
Cash provided by operating activities	<u>49,216</u>	<u>42,757</u>	<u>14,924</u>	<u>38,160</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2011

(expressed in Jamaican dollars unless otherwise indicated)

26. Related Party Transactions and Balances

(a) Purchases of services

Film rental charged by and paid to the parent company for the year amounted to \$107,937,000 (2010 - \$100,440,000) and \$105,500,000 (2010 - \$108,276,000) respectively. Trade payables include \$16,693,000 (2010 - \$14,256,000) due to the parent company in respect of these expenses.

(b) Purchase of property, plant and equipment

During the year, property, plant and equipment with a net book value of \$6,750,000 was transferred to the company from a subsidiary.

(c) Key management compensation

	2011 \$'000	2010 \$'000
Wages and salaries	43,765	34,486
Payroll taxes – Employer's portion	3,315	2,505
Pension	226	184
Other	3,656	3,389
	<u>50,962</u>	<u>40,564</u>
Directors' emoluments –		
Fees	2,022	1,491
Management remuneration (included above)	26,080	19,660
	<u>26,080</u>	<u>19,660</u>

(d) Transactions between the company and its subsidiaries

During the year, the company earned management fees of \$11,152,000 (2010 - \$10,601,000) and film revenue of \$135,517,000 (2010 - \$132,142,000) from a subsidiary.