



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

**Financial Statements
30 June 2013**

The Palace Amusement Company (1921) Limited

Index

30 June 2013

	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 – 46



Independent Auditors' Report

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

Report on the Consolidated and Company Stand Alone Financial Statements

We have audited the accompanying consolidated financial statements of The Palace Amusement Company (1921) Limited and its subsidiaries, set out on pages 1 to 46, which comprise the consolidated statement of financial position as at 30 June 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the accompanying financial statements of The Palace Amusement Company (1921) Limited standing alone, which comprise the statement of financial position as at 30 June 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated and Company Stand Alone Financial Statements

Management is responsible for the preparation of consolidated and company stand alone financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and company stand alone financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated and company stand alone 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 about whether the consolidated and company stand alone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and company stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and company stand alone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and company stand alone financial statements that give a true and fair view 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 consolidated and company stand alone 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 consolidated financial statements of The Palace Amusement Company (1921) Limited and its subsidiaries, and the financial statements of The Palace Amusement Company (1921) Limited standing alone give a true and fair view of the financial position of the The Palace Amusement Company (1921) Limited and its subsidiaries and The Palace Amusement Company (1921) Limited standing alone as at 30 June 2013, and of their financial performance and cash flows for the year then ended, so far as concerns the members of The Palace Amusement Company (1921) Limited, 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 consolidated and company stand alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

PricewaterhouseCoopers
Chartered Accountants
3 October 2013
Kingston, Jamaica

The Palace Amusement Company (1921) Limited

Consolidated Statement of Comprehensive Income

Year ended 30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	2012 \$'000
Revenue		862,474	842,189
Direct expenses		<u>(705,103)</u>	<u>(685,357)</u>
Gross Profit		157,371	156,832
Other operating income	6	12,426	6,985
Administration expenses		<u>(147,671)</u>	<u>(138,068)</u>
Operating Profit		22,126	25,749
Finance costs – interest expense		<u>(3,285)</u>	<u>(3,311)</u>
Profit before Taxation		18,841	22,438
Taxation	9	<u>(4,891)</u>	<u>(8,086)</u>
Net Profit		13,950	14,352
Other Comprehensive Income:			
<i>Item that may be reclassified to profit or loss in the future -</i>			
Unrealised gains/(losses) on available-for-sale investments		<u>3,362</u>	<u>(436)</u>
Total Comprehensive Income		<u>17,312</u>	<u>13,916</u>
Net Profit Attributable to:			
Stockholders of the company	10	14,124	14,663
Non-controlling interest		<u>(174)</u>	<u>(311)</u>
		<u>13,950</u>	<u>14,352</u>
Total Comprehensive Income Attributable to:			
Stockholders of the company		17,161	14,224
Non-controlling interest		<u>151</u>	<u>(308)</u>
		<u>17,312</u>	<u>13,916</u>
Earnings per Stock Unit Attributable to Stockholders of the Company	11	<u>\$9.83</u>	<u>\$10.20</u>

The Palace Amusement Company (1921) Limited

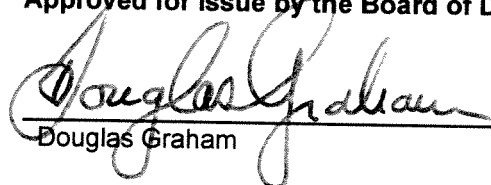
Consolidated Statement of Financial Position

30 June 2013

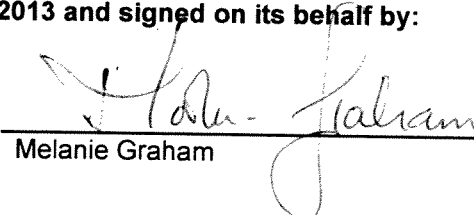
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	2012 \$'000
Non-Current Assets			
Property, plant and equipment	12	271,841	227,748
Investments	13	11,981	8,619
Post-employment benefit assets	15	31,502	32,347
Current Assets			
Inventories	17	37,876	33,156
Receivables	18	42,709	53,148
Cash and bank balances	19	112,373	71,818
		192,958	158,122
Current Liabilities			
Payables	20	162,609	115,345
Taxation payable		857	1,527
Current portion of long term liabilities	21	8,986	5,266
		172,452	122,138
Net Current Assets		20,506	35,984
		335,830	304,698
Stockholders' Equity			
Share capital	22	1,437	1,437
Capital reserve	23	166,488	166,488
Fair value reserve	24	11,549	8,512
Retained earnings	10	109,234	97,625
		288,708	274,062
Non-controlling Interest		5,272	5,121
		293,980	279,183
Non-Current Liabilities			
Long term liabilities	21	31,103	16,366
Deferred tax liabilities	14	10,747	9,149
		335,830	304,698

Approved for issue by the Board of Directors on 3 October 2013 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 2013

(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	\$'000	\$'000
Balance at 1 July 2011	1,437	1,437	166,488	8,951	85,118	5,429	267,423
Total Comprehensive Income							
Net profit	-	-	-	-	14,663	(311)	14,352
Other comprehensive income – Unrealised losses on available – for-sale investments	-	-	-	(439)	-	3	(436)
	-	-	-	(439)	14,663	(308)	13,916
Transactions with owners							
Dividends paid	-	-	-	-	(2,156)	-	(2,156)
Balance at 30 June 2012	1,437	1,437	166,488	8,512	97,625	5,121	279,183
Total Comprehensive Income							
Net profit	-	-	-	-	14,124	(174)	13,950
Other comprehensive income – Unrealised gains on available-for-sale investments	-	-	-	3,037	-	325	3,362
	-	-	-	3,037	14,124	151	17,312
Transactions with owners							
Dividends paid	-	-	-	-	(2,515)	-	(2,515)
Balance at 30 June 2013	1,437	1,437	166,488	11,549	109,234	5,272	293,980

The Palace Amusement Company (1921) Limited

Consolidated Statement of Cash Flows

Year ended 30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

	2013 \$'000	2012 \$'000
Cash Flows from Operating Activities		
Cash provided by operating activities (Note 25)	102,266	47,275
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(82,646)	(40,145)
Proceeds from sale of property, plant and equipment	300	390
Short term deposits, net	(6,401)	(2,216)
Interest received	1,794	576
Dividend received	315	348
Cash used in investing activities	(86,638)	(41,047)
Cash Flows from Financing Activities		
Long term loan received	24,340	-
Long term loans repaid	(5,883)	(5,265)
Interest paid	(3,285)	(3,311)
Dividends paid	(2,515)	(2,156)
Cash provided by/(used in) financing activities	12,657	(10,732)
	28,285	(4,504)
Exchange gain on foreign cash balances	5,751	1,919
Increase/(decrease) in cash and cash equivalents	34,036	(2,585)
Cash and cash equivalents at beginning of year	34,646	37,231
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 19)	68,682	34,646

The Palace Amusement Company (1921) Limited

Company Statement of Comprehensive Income

Year ended 30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	2012 \$'000
Revenue		628,753	609,678
Direct expenses		(505,450)	(481,739)
Gross Profit		123,303	127,939
Other operating income	6	36,377	22,116
Administration expenses		(147,671)	(138,068)
Operating Profit		12,009	11,987
Finance costs – interest expense		(3,166)	(3,193)
Profit before Taxation		8,843	8,794
Taxation	9	(3,370)	(3,083)
Net Profit	10	5,473	5,711
Other Comprehensive Income:			
<i>Item that may be reclassified to profit or loss in the future -</i>			
Unrealised gains/(losses) on available-for-sale investments		85	(470)
Total Comprehensive Income		5,558	5,241

The Palace Amusement Company (1921) Limited

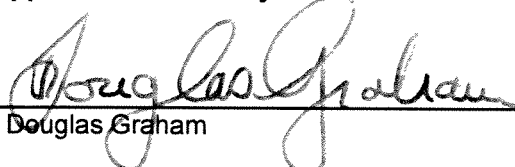
Company Statement of Financial Position

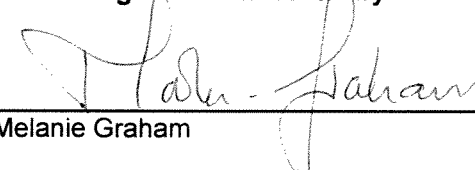
30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	2012 \$'000
Non-Current Assets			
Property, plant and equipment	12	118,418	103,648
Investments	13	2,294	2,209
Post-employment benefit assets	15	31,502	32,347
Due from subsidiary company	16	91,987	68,335
Current Assets			
Inventories	17	35,945	30,723
Receivables	18	42,639	53,148
Cash and bank balances	19	110,898	70,318
		189,482	154,189
Current Liabilities			
Payables	20	149,029	96,149
Taxation payable		857	1,527
Current portion of long term liabilities	21	8,986	5,266
		158,872	102,942
Net Current Assets		30,610	51,247
		274,811	257,786
Stockholders' Equity			
Share capital	22	1,437	1,437
Capital reserve	23	148,365	148,365
Fair value reserve	24	1,737	1,652
Retained earnings	10	63,954	60,996
		215,493	212,450
Non-Current Liabilities			
Due to subsidiary companies	16	23,779	24,611
Long term liabilities	21	31,103	16,366
Deferred tax liabilities	14	4,436	4,359
		274,811	257,786

Approved for issue by the Board of Directors on 3 October 2013 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 2013

(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 2011	1,437	1,437	148,365	2,122	57,441	209,365
Total Comprehensive Income						
Net Profit	-	-	-	-	5,711	5,711
Other comprehensive income – Unrealised losses on available-for-sale investments	-	-	-	(470)	-	(470)
	-	-	-	(470)	5,711	5,241
Transactions with owners						
Dividends paid	-	-	-	-	(2,156)	(2,156)
Balance at 30 June 2012	1,437	1,437	148,365	1,652	60,996	212,450
Total Comprehensive Income						
Net profit	-	-	-	-	5,473	5,473
Other comprehensive income – Unrealised gains on available-for-sale investments	-	-	-	85	-	85
	-	-	-	85	5,473	5,558
Transactions with owners						
Dividends paid	-	-	-	-	(2,515)	(2,515)
Balance at 30 June 2013	1,437	1,437	148,365	1,737	63,954	215,493

The Palace Amusement Company (1921) Limited

Company Statement of Cash Flows

Year ended 30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

	2013 \$'000	2012 \$'000
Cash Flows from Operating Activities		
Cash provided by operating activities (Note 25)	61,061	30,510
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(43,275)	(25,180)
Proceeds from sale of property, plant and equipment	300	390
Short term deposits, net	(6,401)	(2,216)
Interest received	3,751	2,111
Dividend received	98	105
Cash used in investing activities	(45,527)	(24,790)
Cash Flows from Financing Activities		
Long term loan received	24,340	-
Long term loans repaid	(5,883)	(5,265)
Interest paid	(3,166)	(3,193)
Dividends paid	(2,515)	(2,156)
Cash provided by/(used in) financing activities	12,776	(10,614)
	28,310	(4,894)
Exchange gain on foreign cash balances	5,751	1,919
Increase/(decrease) in cash and cash equivalents	34,061	(2,975)
Cash and cash equivalents at beginning of year	33,146	36,121
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 19)	67,207	33,146

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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 62.5% 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) ATM Film Distributors;
- (iv) Metropolitan Opera; and
- (v) The parent company, which represents Warner Bros, 20th Century Fox, as well as Goldmine Productions and D.S. Pictures.

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.

Amendment to published standard effective in the current year that is relevant to the Group's operations

- IAS 1 (Amendment), 'Presentation of Financial Statements' (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. There is no significant impact on presentation from the adoption of this amendment since all items presented in other comprehensive income will be recycled to profit or loss in the future.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

- IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after 1 January 2015). 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 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'.
- 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.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

- 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.
- 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. Management anticipates that adoption will impact on the amounts reported in respect of the Group's defined benefit plan, but have not yet quantified that impact. Management is assessing the impact of adoption on the Group.
- IAS 1 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2013). This amendment clarifies the disclosure requirements for comparative information when an entity provides a third statement of financial position. When an entity produces an additional statement of financial position as required by IAS 8, the statement of financial position should be as at the date of the beginning of the preceding period, that is, the opening position. No notes are required to support this statement of financial position. When management provides additional comparative information voluntarily, for example, statement of profit and loss, statement of financial position, it should present the supporting notes to these additional statements. This amendment will impact the Group to the extent that a third statement of financial position is presented in accordance with IAS 8.
- IAS 16 'Property, plant and equipment' (effective for annual periods beginning on or after 1 January 2013). This amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The Group is assessing the impact of future adoption of the standard on its financial statements.
- IAS 32 'Financial instruments: Presentation' (effective for annual periods beginning on or after 1 January 2013). This amendment clarifies the treatment of income tax relating to distributions and transaction costs. The treatment is in accordance with IAS 12. Therefore, income tax related to distributions is recognised in the statement of comprehensive income, and income tax related to the costs of equity transactions is recognised in equity. This amendment is not expected to have a significant impact on the Group's financial statements.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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.

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 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.

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.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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 and 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.

(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.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(d) Property, plant and equipment (continued)

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.

(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', 'short term deposits' and 'cash and bank balances'. The company's loans and receivables also includes 'due from subsidiary company'.

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.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) Financial instruments (continued)

Financial assets (continued)

(ii) Recognition and measurement (continued)

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 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 other comprehensive income 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: long term loans, due to subsidiary companies 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 with original maturity of 90 days or less.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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.

(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 or equity, in which case deferred tax is also dealt with in other comprehensive income or equity.

Deferred income tax liabilities are not recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of subsidiaries as such amounts are permanently reinvested 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.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(l) Employee benefits (Continued)

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.

(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.

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 film 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.

The Group operates an electronic card programme where customers are entitled to discounts once an electronic card is purchased. The fair value of the consideration received is recognised as deferred income at the time of sale. Revenue is recognised as the electronic cards are utilised or have expired. Electronic cards expire 18 months after the initial sale.

The Group sells movie vouchers which entitle the customers to box office attendance in the future. The fair value of the consideration received is recognised as deferred income at the time of sale. Revenue is recognised as the movie vouchers are utilised or have expired. Vouchers expire 12 months after the initial sale.

(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.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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.

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 \$13,097,000 (2012 – \$19,437,000) and \$58,951,000 (2012 – \$41,328,000) respectively.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

Currency risk (continued)

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 10% (2012 – 1%) depreciation and a 1% (2012 – 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
	2013	30 June 2013 \$'000	2012	30 June 2012 \$'000
Currency:				
USD	-10	7,205	-1	608
USD	+1	(720)	+1	(608)

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 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.

Short term deposits and borrowings are the only interest bearing assets and liabilities respectively, within the Group. The Group's short term deposits and borrowings are due to mature and reprice respectively, within 3 months of the reporting date.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

Interest rate sensitivity

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. A 2.5% increase/1% decrease (2012 – 1% increase/decrease) in interest rates on Jamaican dollar borrowings would result in a \$451,000 decrease/\$180,000 increase (2012 - \$216,000 decrease/increase) in profit before tax for the Group and company.

(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, due from subsidiary company, and cash and bank balances.

Trade receivables

Revenue transactions in respect of the Group's 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.

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.

Maximum exposure to credit risk

The maximum exposure to credit risk is equal to the carrying amount of 'trade and other receivables', 'due from subsidiaries' and 'cash and cash equivalents' in the statement of financial position.

Trade receivables that are past due but not impaired

As at 30 June 2013, trade receivables of \$2,751,000 (2012 - \$1,172,000) were past due but not impaired. These relate to independent customers for whom there is no recent history of default.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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

As of 30 June 2013, the Group and company had trade receivables of \$628,000 (2012 - \$606,000) that were impaired. The amount of the provision was \$628,000 (2012 – \$606,000). These receivables were aged over 90 days.

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

	The Group and Company	
	2013	2012
	\$'000	\$'000
At 1 July	606	776
Provision for receivables impairment	223	606
Bad debts recovered, previously provided for	-	(645)
Receivables written off during the year as uncollectible	(201)	(131)
At 30 June	<u>628</u>	<u>606</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:

	The Group and Company	
	2013	2012
	\$'000	\$'000
Independent cinemas	14,066	21,387
Advertising agencies	2,742	3,261
Other	4,595	4,918
	<u>21,403</u>	<u>29,566</u>
Less: Provision for credit losses	(628)	(606)
	<u>20,775</u>	<u>28,960</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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				Total \$'000
	Within 1 Year \$'000	1 to 2 Years \$'000	2 to 5 Years \$'000	Over 5 Years \$'000	
As at 30 June 2013					
Trade payables	80,247	-	-	-	80,247
Accruals and other payables	66,372	-	-	-	66,372
Long term liabilities	12,331	10,137	21,578	7,198	51,244
Total financial liabilities (contractual maturity dates)	158,950	10,137	21,578	7,198	197,863
As at 30 June 2012					
Trade payables	56,714	-	-	-	56,714
Accruals and other payables	40,895	-	-	-	40,895
Long term liabilities	7,813	7,173	12,080	-	27,066
Total financial liabilities (contractual maturity dates)	105,422	7,173	12,080	-	124,675

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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 2013					
Trade payables	79,066	-	-	-	79,066
Accruals and other payables	57,600	-	-	-	57,600
Due to subsidiary companies	23,779	-	-	-	23,779
Long term liabilities	12,331	10,137	21,578	7,198	51,244
Total financial liabilities (contractual maturity dates)	172,776	10,137	21,578	7,198	211,689
As at 30 June 2012					
Trade payables	55,971	-	-	-	55,971
Accruals and other payables	33,017	-	-	-	33,017
Due to subsidiary companies	24,611	-	-	-	24,611
Long term liabilities	7,813	7,173	12,080	-	27,066
Total financial liabilities (contractual maturity dates)	121,412	7,173	12,080	-	140,665

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 2013

(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 \$11,981,000 (2012 - \$8,619,000) and \$1,809,000 (2012 - \$1,724,000) 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 2014.
- (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 2013

(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.

Depreciable assets

Estimates of the useful life and the residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The Group applies a variety of methods in an effort to arrive at these estimates from which actual results may vary. Actual variations in estimated useful lives and residual values are reflected in profit or loss through impairment or adjusted depreciation provisions.

During the year, an impairment charge of \$1,088,000 arose in the Odeon Cineplex cinema cash generating unit, resulting in the carrying amount of the cash generating unit being written down to its recoverable amount (Note12). No impairment charge was recorded in the prior year.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

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 and rental of films from distributors and the rental of films to cinema operators throughout the Caribbean; and
- (iii) Screen advertising activities.

Interest expense is included in the measure of segment results for Carib and Palace Cineplex (2012 – Carib and Palace Cineplex). The remaining interest expense is not reviewed as part of the results of the reportable segments but is however regularly reviewed by the chief operating decision maker.

Interest income is not included in the measure of segment results and is not reviewed as part of the results of the reportable segments. Interest income is however regularly reviewed by the chief operating decision maker.

Deferred tax assets and post-employment benefit assets are not included in the measure of segment assets and are not reviewed as part of the result of the reportable segments. Deferred tax assets and post-employment benefit assets are however 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 \$59,627,000.00 (2012 - \$\$56,131,000) 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 2013

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

	2013						
	Cinema activities				Film activities	Screen Advertising activities	Total
	Carib Cinema	Palace Cineplex	Palace Multiplex	Odeon Cineplex	\$'000	\$'000	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue –							
Box office receipts	278,816	96,600	128,092	32,731	-	-	536,239
Confectionery sales	113,388	38,336	45,717	12,853	-	-	210,294
Film rental	-	-	-	-	351,877	-	351,877
Screen advertising	20,128	8,383	11,823	3,383	-	26,387	70,104
Other activities	2,865	1,585	563	304	-	-	5,317
	415,197	144,904	186,195	49,271	351,877	26,387	1,173,831
Eliminations							(311,357)
Revenue from external customers							862,474
Segment result ⁽¹⁾	10,782	22,624	21,515	(9,328)	70,713	17,249	133,555
Eliminations							22,211
							155,766
Segment assets ⁽²⁾	156,279	35,077	32,773	8,503	2,469	33	235,134
Unallocated assets							273,148
Total assets							508,282
Segment liabilities ⁽³⁾	47,113	4,869	-	-	-	-	51,982
Unallocated liabilities							162,320
Total liabilities							214,302
Other items –							
Capital expenditure	39,371	12,320	10,271	475	-	-	62,437
Unallocated head office capital expenditure							20,209
Total capital expenditure							82,646
Depreciation	10,048	4,740	8,356	6,893	955	13	31,005
Unallocated head office depreciation							6,392
Total depreciation							37,397
Impairment charge	-	-	-	1,088	-	-	1,088
Interest expense	2,076	616	-	-	-	-	2,692
Unallocated head office interest expense							2,550
Eliminations							(1,957)
Total interest expense							3,285

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

5. Segment Reporting (Continued)

	2012						
	Cinema activities				Film activities	Screen Advertising activities	Total
	Carib Cinema	Palace Cineplex	Palace Multiplex	Odeon Cineplex	\$'000	\$'000	\$'000
	\$'000	\$'000	\$'000	\$'000			
Revenue –							
Box office receipts	276,781	88,845	114,677	34,006	-	-	514,309
Confectionery sales	111,715	38,007	44,428	13,645	-	-	207,795
Film rental	-	-	-	-	340,843	-	340,843
Screen advertising	20,875	10,023	11,912	3,601	-	27,966	74,377
Other activities	3,982	2,607	374	221	-	-	7,184
	413,353	139,482	171,391	51,473	340,843	27,966	1,144,508
Eliminations							(302,319)
Revenue from external customers							842,189
Segment result ⁽¹⁾	15,009	21,742	17,925	(6,922)	76,009	18,478	142,241
Eliminations							13,839
							156,080
Segment assets ⁽²⁾	127,483	27,496	31,271	16,291	3,424	46	206,011
Unallocated assets							220,825
Total assets							426,836
Segment liabilities ⁽³⁾	31,416	6,227	-	-	-	-	37,643
Unallocated liabilities							110,010
Total liabilities							147,653
Other items –							
Capital expenditure	14,965	608	10,890	102	-	-	26,565
Eliminations							-
Unallocated head office capital expenditure							13,580
Total capital expenditure							40,145
Depreciation	8,862	3,605	11,756	6,905	955	13	32,096
Unallocated head office depreciation							3,870
Total depreciation							35,966
Interest expense	1,653	767	-	-	-	-	2,420
Unallocated head office interest expense							2,426
Eliminations							(1,535)
Total interest expense							3,311

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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:

	The Group	
	2013	2012
	\$'000	\$'000
Profit from reportable segments	155,766	156,080
Unallocated income -		
Other operating income	12,426	6,985
Unallocated costs -		
Administrative expenses	(147,671)	(138,068)
Other	(1,087)	(1,668)
	(148,758)	(139,736)
Unallocated interest expense	(2,550)	(2,426)
Eliminations	1,957	1,535
	(593)	(891)
	<u>18,841</u>	<u>22,438</u>

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

	The Group	
	2013	2012
	\$'000	\$'000
Segment assets from reportable segments	235,134	206,011
Unallocated assets -		
Property, plant and equipment	43,710	29,960
Investments	11,981	8,619
Post-employment benefit assets	31,502	32,347
Inventories	33,734	28,789
Receivables	42,709	52,260
Cash and bank balances	109,512	68,850
	<u>508,282</u>	<u>426,836</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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:

	The Group	
	2013 \$'000	2012 \$'000
Segment liabilities from reportable segments	51,982	37,643
Unallocated liabilities -		
Deferred tax liabilities	10,747	9,149
Long term loan – PanCaribbean Bank Limited	1,432	2,949
Payables	149,284	96,385
Taxation payable	857	1,527
	<u>214,302</u>	<u>147,653</u>

6. Other Operating Income

	The Group		The Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Management fees	-	-	22,211	13,839
Interest income	2,481	2,356	4,438	3,891
Dividend income	315	348	98	105
Net foreign exchange gains	8,079	1,394	8,079	1,394
Gain on sale of property, plant and equipment	232	390	232	390
Other	1,319	2,497	1,319	2,497
	<u>12,426</u>	<u>6,985</u>	<u>36,377</u>	<u>22,116</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

7. Expenses by Nature

Total direct and administration expenses:

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Advertising and promotion	24,435	21,833	14,497	12,546
Auditors' remuneration	3,555	3,460	2,800	2,750
Bank security and fees	5,563	5,241	2,827	2,649
Cost of inventories recognised as expense	105,815	114,470	46,161	46,903
Depreciation	37,397	35,966	27,349	27,104
Film cost	273,697	258,008	273,697	258,008
Impairment charge	1,088	-	1,088	-
Insurance	14,772	13,918	9,293	8,566
Legal and professional fees	2,007	2,389	1,323	1,476
Licence fees	5,376	5,269	2,594	2,437
Motor vehicle expenses	5,409	5,485	5,409	5,485
Other	19,563	21,359	14,996	16,670
Repairs, maintenance and renewals	30,833	29,496	18,498	16,069
Security	22,780	20,397	9,800	10,346
Staff costs (Note 8)	187,053	178,775	145,502	136,619
Stationery and supplies	16,650	19,871	9,778	11,673
Theatre rental	29,196	23,908	29,196	23,908
Transportation and courier	2,805	2,520	2,100	1,900
Utilities	64,780	61,060	36,213	34,698
	852,774	823,425	653,121	619,807

8. Staff Costs

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	151,671	144,194	117,994	111,260
Payroll taxes – Employer's portion	14,201	13,796	10,455	10,162
Pension (Note 15)	1,705	65	1,705	65
Other	19,476	20,720	15,348	15,132
	187,053	178,775	145,502	136,619

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

9. Taxation Expense

Taxation is computed on the profit for the year adjusted for tax purposes and comprises income tax at 30% and 25% (2012 – 33 ⅓%) :

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Current taxation	3,178	5,263	3,178	5,263
Prior year under accrual	115	-	115	-
Deferred taxation (Note 14)	1,598	2,823	77	(2,180)
	<u>4,891</u>	<u>8,086</u>	<u>3,370</u>	<u>3,083</u>

The tax on the profit before taxation differs from the theoretical amount that would arise using the applicable tax rate of 2013 - 30% and 25% (2012 - 33⅓%), as follows:

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Profit before taxation	18,841	22,438	8,843	8,794
Tax calculated at applicable tax rates	5,153	7,479	2,653	2,931
Adjusted for the effects of:				
Prior year under accrual	115	-	115	-
Income not subject to tax	-	(116)	-	(35)
Income subject to different tax rates	(25)	-	(25)	-
Disallowed expenses	1,052	741	843	205
Effect of change in tax rate	(1,404)		(198)	
Other	-	(18)	(18)	(18)
	<u>4,891</u>	<u>8,086</u>	<u>3,370</u>	<u>3,083</u>

10. Net Profit and Retained Earnings Attributable to the Stockholders

	2013	2012
	\$'000	\$'000
(a) Net profit attributable to the stockholders of the company is dealt with as follows in the financial statements of:		
The company	5,473	5,711
The subsidiaries	8,651	8,952
	<u>14,124</u>	<u>14,663</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

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

	2013 \$'000	2012 \$'000
(b) Retained earnings attributable to the stockholders of the company are dealt with as follows in the financial statements of:		
The company	63,954	60,996
The subsidiaries	45,280	36,629
	<u>109,234</u>	<u>97,625</u>

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.

	2013	2012
Net profit attributable to stockholders (\$'000)	14,124	14,663
Number of ordinary stock units ('000)	1,437	1,437
Earnings per stock unit (\$ per share)	<u>9.83</u>	<u>10.20</u>

The company has no potentially dilutive ordinary shares.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

12. Property, Plant and Equipment

	The Group					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 2011	19,883	72,280	2,203	63,361	370,842	528,569
Additions	-	-	1,942	-	38,203	40,145
Disposals	-	-	-	-	(966)	(966)
At 30 June 2012	19,883	72,280	4,145	63,361	408,079	567,748
Additions	-	-	497	-	82,149	82,646
Disposals	-	-	-	-	(1,021)	(1,021)
At 30 June 2013	19,883	72,280	4,642	63,361	489,207	649,373
Depreciation and impairment -						
At 1 July 2011	-	25,646	553	57,399	221,402	305,000
Charge for the year	-	1,807	160	5,820	28,179	35,966
Relieved on disposal	-	-	-	-	(966)	(966)
At 30 June 2012	-	27,453	713	63,219	248,615	340,000
Charge for the year	-	1	2,029	142	35,225	37,397
Impairment charge	-	-	-	-	1,088	1,088
Relieved on disposal	-	-	-	-	(953)	(953)
At 30 June 2013	-	27,454	2,742	63,361	283,975	377,532
Net Book Value -						
30 June 2013	19,883	44,826	1,900	-	205,232	271,841
30 June 2012	19,883	44,827	3,432	142	159,464	227,748

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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 2011	1,010	6	2,203	63,361	247,374	313,954
Additions	-	-	1,942	-	23,238	25,180
Disposals	-	-	-	-	(966)	(966)
At 30 June 2012	1,010	6	4,145	63,361	269,646	338,168
Additions	-	-	408	-	42,867	43,275
Disposals	-	-	-	-	(1,021)	(1,021)
At 30 June 2013	1,010	6	4,553	63,361	311,492	380,422
Depreciation and impairment -						
At 1 July 2011	-	2	553	57,399	150,428	208,382
Charge for the year	-	-	160	4,013	22,931	27,104
Relieved on disposal	-	-	-	-	(966)	(966)
At 30 June 2012	-	2	713	61,412	172,393	234,520
Charge for the year	-	-	222	1,949	25,178	27,349
Impairment charge	-	-	-	-	1,088	1,088
Relieved on disposal	-	-	-	-	(953)	(953)
At 30 June 2013	-	2	935	63,361	197,706	262,004
Net Book Value -						
30 June 2013	1,010	4	3,618	-	113,786	118,418
30 June 2012	1,010	4	3,432	1,949	97,253	103,648

Deemed cost of the freehold land and buildings includes revaluation surpluses of \$2,231,000 (2012 - \$2,231,000) and \$1,373,000 (2012 - \$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 carrying amount of the Odeon Cineplex cinema segment has been reduced to its recoverable amount through the recognition of an impairment loss against property, plant and equipment. This loss has been included in 'direct expenses' in the statement of comprehensive income.

The impairment charge arose in the Odeon Cineplex cinema cash generating unit following a history of reported losses and economic performance below management's expectations.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

12. Property, Plant and Equipment (Continued)

The recoverable amount of the cash generating unit has been determined based on fair value less costs to sell. Fair value has been determined by reference to market quotations for equipment of similar make and model.

The Group reassessed the depreciation policies of its property, plant and equipment and estimated that their useful lives would not be affected. No class of asset other than property, plant and equipment was impaired.

13. Investments

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Quoted equities – available for sale at fair value	11,981	8,619	1,809	1,724
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>11,981</u>	<u>8,619</u>	<u>2,294</u>	<u>2,209</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 30% and 25% (2012 - 33⅓%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate offsetting are as follows:

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Deferred tax liabilities	<u>(10,747)</u>	<u>(9,149)</u>	<u>(4,436)</u>	<u>(4,359)</u>

The movement in deferred taxation is as follows:

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Balance at start of year	(9,149)	(6,326)	(4,359)	(6,539)
(Charge)/Credit for the year (Note 9)	(1,598)	(2,823)	(77)	2,180
Balance at end of year	<u>(10,747)</u>	<u>(9,149)</u>	<u>(4,436)</u>	<u>(4,359)</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Deferred tax assets to be recovered after more than 12 months	7,275	7,595	5,744	5,916
Deferred tax liabilities to be settled after more than 12 months	(17,293)	(17,251)	9,451	(10,782)

Deferred taxation is due to the following temporary differences:

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Tax loss carry forwards	1,531	1,679	-	-
Unrealised foreign exchange (gains)/losses	(501)	722	(501)	722
(Accelerated)/decelerated capital allowances	(2,098)	(553)	5,744	5,916
Pension surplus	(9,451)	(10,782)	(9,451)	(10,782)
Interest receivable	(228)	(215)	(228)	(215)
	(10,747)	(9,149)	(4,436)	(4,359)

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

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Tax loss carry forwards	(148)	(3,793)	-	-
Unrealised foreign exchange gains and losses	(1,223)	(99)	(1,223)	(99)
(Accelerated)/decelerated capital allowances	(1,545)	1,321	(172)	2,531
Pension surplus	1,331	(252)	1,331	(252)
Interest receivable	(13)	-	(13)	-
	(1,598)	(2,823)	(77)	2,180

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 \$7,591,000 for the Group and \$nil for the company (2012– \$6,457,000 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 2013

(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 (2012 - \$247,000) and \$1,221,000 (2012 - \$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 \$67,008,000 (2012 - \$58,531,000).

15. Post-employment Benefit assets

	The Group and The Company	
	2013	2012
	\$'000	\$'000
Amounts recognised in the statement of financial position		
Head office employees pension plan	21,743	21,991
Cinema employees pension plan	9,759	10,356
	<u>31,502</u>	<u>32,347</u>
(Debit)/credit recognised in profit or loss (Note 8) –		
Head office employees pension plan	(755)	(597)
Cinema employees pension plan	(950)	532
	<u>(1,705)</u>	<u>(65)</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.

The latest actuarial valuation which was carried out as at 30 June 2010 indicated that the plan was adequately funded.

Cinema employees pension plan

The company participates in a defined benefit plan which is open to all permanent cinema employees and administered by Sagikor 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 latest actuarial valuation which was carried out as at 30 March 2011 indicated that the plan was adequately funded.

The plans are valued annually by independent actuaries using the Projected Unit Credit Method. The latest actuarial valuation was done as at 30 June 2013.

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Fair value of plan assets	157,312	143,738	57,270	51,333
Present value of funded obligations	(135,569)	(121,583)	(37,233)	(40,977)
	21,743	22,155	20,037	10,356
Unrecognised actuarial losses/(gains)	169	(164)	(10,278)	641
Unrecognised asset due to limit in 58(b)	(169)	-	-	(641)
Asset in the statement of financial position	21,743	21,991	9,759	10,356

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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Current service cost	(5,975)	(6,437)	(3,706)	(3,491)
Interest cost	(11,938)	(11,871)	(3,353)	(3,438)
Employee contributions	3,687	3,648	2,006	1,775
Expected return on plan assets	13,640	14,063	3,462	3,303
Change in income not eligible for recognition due to limit	(169)	-	641	2,383
Total included in staff costs	(755)	(597)	(950)	532

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Balance at start of year	143,738	143,500	51,333	50,002
Purchased annuities	3,082	-	-	2,444
Employee contributions	3,687	3,648	2,006	1,775
Employer contributions	508	498	353	323
Expected return on plan assets	13,640	14,063	3,462	3,304
Benefits paid	(4,769)	(9,890)	(671)	(4,478)
Actuarial (losses)/gains	(2,574)	(8,081)	787	(2,037)
Balance at end of year	157,312	143,738	57,270	51,333

The actual return on plan assets was \$11,066,000 (2012– \$5,982,000) for the head office employees plan and \$4,249,000 (2012 - \$1,267,000) 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 2014 amount to \$487,000 for the head office employees plan and \$392,000 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	
	2013 %	2012 %	2013 %	2012 %
Pooled investment funds –				
Equity Fund	14	18	19	19
Mortgage and Real Estate Fund	-	-	19	18
Fixed Income Fund	67	61	14	14
Money Market Fund	17	9	5	7
Foreign Currency Fund	-	-	24	23
CPI- Indexed	-	-	11	10
Purchased Annuities	2	-	7	-
Other	-	12	1	9
	100	100	100	100

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Balance at start of year	(121,583)	(116,730)	(40,977)	(40,501)
Purchased annuities	(3,082)	-	-	(2,444)
Current service cost	(5,975)	(6,437)	(3,706)	(3,491)
Interest cost	(11,938)	(11,871)	(3,353)	(3,438)
Benefits paid	4,769	9,890	671	4,478
Actuarial gains	2,240	3,565	10,132	4,419
	<u>(135,569)</u>	<u>(121,583)</u>	<u>(37,233)</u>	<u>(40,977)</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				
	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Fair value of plan assets	157,312	143,738	143,500	126,708	109,698
Defined benefit obligation	(135,569)	(121,583)	(116,730)	(90,611)	(64,892)
Surplus	<u>21,743</u>	<u>22,155</u>	<u>26,770</u>	<u>36,097</u>	<u>44,806</u>
Experience adjustments –					
Fair value of plan assets	(2,574)	(8,081)	1,735	2,236	(2,659)
Defined benefit obligation	2,240	6,293	(2,130)	2,296	(4,193)
	<u>21,743</u>	<u>22,155</u>	<u>26,770</u>	<u>36,097</u>	<u>44,806</u>
	Cinema employees pension plan				
	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Fair value of plan assets	57,270	51,333	50,002	43,045	37,626
Defined benefit obligation	(37,233)	(40,977)	(40,501)	(40,037)	(31,010)
Surplus	<u>20,037</u>	<u>10,356</u>	<u>9,501</u>	<u>3,008</u>	<u>6,616</u>
Experience adjustments –					
Fair value of plan assets	787	(2,037)	1,731	(1,757)	(5,652)
Defined benefit obligation	533	872	2,221	3,803	(2,139)
	<u>20,037</u>	<u>10,356</u>	<u>9,501</u>	<u>3,008</u>	<u>6,616</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(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	
	2013	2012	2013	2012
Discount rate	10.0%	10.0%	10.0%	10.0%
Expected return on plan assets	9.0%	9.5%	8.25%	8.25%
Long term inflation rate	5.5%	5.0%	5.5%	5.0%
Future salary increases	5.5%	7.0%	5.5%	5.0%
Future pension increases	-	-	1.00%	4.5%
Expected remaining working lives (years)	23.00	21.60	22.00	24.00

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

16. Due from/to Subsidiary Companies

This represents the yearend 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, with the exception of amounts on-lent to a subsidiary to finance the purchase of 3D equipment in 2009 and new air conditioning units in 2013. Interest is charged by the holding company on a reducing balance basis on these loans at a rate of 11% and 8% respectively (2012 - 11%) per annum. The reduced balance is deemed to be the original loan proceeds, less principal repayments made by the holding company on behalf of the subsidiary. The balance at year end was \$33,788,000 (2012 - \$12,455,000).

There are no fixed terms of repayment. The balances are classified as non-current as the company and subsidiaries have expressed their intention to not demand repayment of any portion of the balance until after 1 July 2014.

17. Inventories

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Confectionery and snacks	19,263	20,807	17,332	18,374
General stores	18,512	12,176	18,512	12,176
Goods in transit	101	173	101	173
	37,876	33,156	35,945	30,723

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

18. Receivables

	The Group		The Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Trade receivables	20,775	28,960	20,775	28,960
Prepayments	14,339	19,236	14,339	19,236
Other	7,595	4,952	7,525	4,952
	<u>42,709</u>	<u>53,148</u>	<u>42,639</u>	<u>53,148</u>

19. Cash and bank and short term deposits

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank and cash in hand as follows:

	The Group		The Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Cash at bank and in hand	68,682	34,646	67,207	33,146

At 30 June 2013, the Group and company had short term deposits amounting to \$43,691,000 (2012 - \$37,172,000). Interest receivable on short term investments amounted to \$763,000 (2012 - \$645,000).

The weighted average interest rate on short term deposits denominated in Jamaican dollars and United States dollars was 6.40% and 4.30%, respectively (2012 - 5% and 4%, respectively) and these deposits mature within 180 days (2012 - 180 days).

20. Payables

	The Group		The Company	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Trade payables	86,173	59,944	84,992	59,201
Accruals and other payables	76,436	55,401	64,037	36,948
	<u>162,609</u>	<u>115,345</u>	<u>149,029</u>	<u>96,149</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

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 \$23,735,000 (2012 - \$23,702,000) which attract interest at 14% (2012 – 14%) and are immediately rate sensitive.

(b) Long term liabilities

	The Group & The Company	
	2013	2012
	\$'000	\$'000
PanCaribbean Bank Limited		
Amortised loan facility (i)	1,432	2,949
Bank of Nova Scotia Jamaica Limited -		
Development Bank of Jamaica Limited, non-revolving loan (ii)	14,607	18,683
Development Bank of Jamaica Limited, non-revolving term loan (iii)	24,050	-
	<u>40,089</u>	<u>21,632</u>
Less: Current portion	(8,986)	(5,266)
	<u>31,103</u>	<u>16,366</u>

- (i) This loan incurs interest at a rate of 18.95% (2012 – 18.95%) and is repayable in April 2014. The loan is secured by a bill of sale over motor vehicles and assignment of comprehensive insurance over said motor vehicles.
- (ii) This loan incurs interest at a rate of 11% (2012 – 11%) and is repayable in April 2017. The Cinema Company of Jamaica, a wholly owned subsidiary, has provided an unlimited guarantee in respect of this loan. This guarantee is supported by a first legal mortgage over the Carib Cinema. The loan is also secured by assignment of peril insurance in respect of the Carib cinema, at full market value.
- (iii) This loan incurs interest at a rate of 8% (2012 – nil) and is repayable in May 2020. The Cinema Company of Jamaica, a wholly owned subsidiary, has provided an unlimited guarantee in respect of this loan. This guarantee is supported by a first legal mortgage over the Carib Cinema. The loan is also secured by assignment of peril insurance in respect of the Carib cinema, at full market value.

22. Share Capital

	2013	2012
	\$'000	\$'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>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

23. Capital Reserve

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'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.

25. Cash Provided By Operating Activities

	The Group		The Company	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Net profit	13,950	14,352	5,473	5,711
Items not affecting cash resources:				
Depreciation	37,397	35,966	27,349	27,104
Impairment charge	1,088	-	1,088	-
Gain on sale of property, plant and equipment	(232)	(390)	(232)	(390)
Interest income	(2,481)	(2,356)	(4,438)	(3,891)
Dividend income	(315)	(348)	(98)	(105)
Exchange gain on foreign balances	(8,079)	(1,394)	(8,079)	(1,394)
Interest expense	3,285	3,311	3,166	3,193
Taxation	4,891	8,086	3,370	3,083
	<u>49,504</u>	<u>57,227</u>	<u>27,599</u>	<u>33,311</u>
Changes in operating assets and liabilities:				
Inventories	(4,720)	(7,098)	(5,222)	(6,697)
Receivables	12,874	(11,361)	12,944	(11,361)
Pension surplus	845	(758)	845	(758)
Due from subsidiaries	-	-	(24,484)	14,793
Payables	47,158	8,010	52,774	(33)
	<u>105,661</u>	<u>46,020</u>	<u>64,456</u>	<u>29,255</u>
Taxation (paid)/recovered	(3,395)	1,255	(3,395)	1,255
Cash provided by operating activities	<u>102,266</u>	<u>47,275</u>	<u>61,061</u>	<u>30,510</u>

The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2013

(expressed in Jamaican dollars unless otherwise indicated)

26. Related Party Transactions and Balances

(a) Purchases of services

Film rental charged by the parent company for the year amounted to \$133,566,000 (2012 - \$126,240,000) respectively. Trade payables include \$30,447,000 (2012 - \$20,881,000) due to the parent company in respect of these expenses.

(b) Key management compensation

	2013 \$'000	2012 \$'000
Wages and salaries	43,737	45,970
Payroll taxes – Employer's portion	2,517	3,008
Pension	224	207
Other	4,643	4,135
	<u>51,121</u>	<u>53,320</u>
Directors' emoluments –		
Fees	684	1,828
Management remuneration (included above)	<u>27,107</u>	<u>26,376</u>

(c) Transactions between the company and its subsidiaries

During the year, the company earned management fees of \$22,211,000 (2012 - \$13,839,000), film revenue of \$169,324,000 (2012 - \$168,316,000) and screen advertising administrative fees of \$12,152,000 (2012 - \$12,525,000) from a subsidiary.

(d) Year end balances arising from transactions with related parties

	2013 \$'000	2012 \$'000
Receivables -		
Subsidiary company	<u>91,987</u>	<u>68,335</u>
Payables -		
Subsidiary companies	<u>23,779</u>	<u>24,611</u>

(e) Guarantees

The Cinema Company of Jamaica Limited has provided an unlimited guarantee in respect of the Bank of Nova Scotia Jamaica Limited loans (Note 21). The guarantee is secured by a first legal mortgage over the Carib cinema building.

27. Contingent Liabilities

At 30 June 2013, the Group and company were contingently liable in respect of letters of credit issued to third parties in the ordinary course of business totalling \$2,755,000 (2012 - \$2,645,000).