



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

**Financial Statements  
30 June 2020**

# The Palace Amusement Company (1921) Limited

Index

30 June 2020

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## Independent auditor's report

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

### Report on the audit of the consolidated and stand-alone financial statements

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#### Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of The Palace Amusement Company (1921) Limited (the Company) and its subsidiaries (together 'the Group') and the stand-alone financial position of the Company as at 30 June 2020, and of their consolidated and stand-alone financial performance and their consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and with the requirements of the Jamaican Companies Act.

#### ***What we have audited***

The Group's consolidated and stand-alone financial statements comprise:

- the consolidated statement of financial position as at 30 June 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the company statement of financial position as at 30 June 2020;
- the company statement of comprehensive income for the year then ended;
- the company statement of changes in equity for the year then ended;
- the company statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements* section of our report.

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



### ***Independence***

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

### ***Material uncertainty related to going concern***

We draw attention to Note 2 to the financial statements, which discusses the impact of COVID-19 on the Group and Company's ability to continue as a going concern and indicates that the Group and Company incurred a net loss of \$99.6 million and \$85.0 million respectively during the year ended 30 June 2020 and, as of that date, their current liabilities exceeded their current assets by \$199.4 million and \$188.6 million respectively. As stated in Note 2, these events and conditions along with the other matters also set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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## **Our audit approach**

### ***Audit scope***

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and stand-alone financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### ***How we tailored our group audit scope***

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In assessing the risk of material misstatement to the consolidated financial statements, we designed and performed full scope audits over the Group's two individually financially significant components being, The Palace Amusement Company (1921) Limited and The Cinema Company of Jamaica Limited. In total, the Group comprises four components all of which are domiciled in Jamaica. The remaining two components contribute less than 2% of the Group's profit before tax from continued operations. We performed other procedures including analytical review procedures and testing of consolidation journals and intercompany eliminations to further respond to the risks of material misstatement to the consolidated financial statements. All components were audited by PwC Jamaica.



### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and stand-alone financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and stand-alone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report:

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Impairment assessment for property, plant and equipment and right-of-use assets (Group and Company)</i></b></p> <p><i>Refer to notes 2(d), 2(e), 2(o), 4(b), 13 and 29 to the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgements, estimates and balances.</i></p> <p>As at 30 June 2020, amounts disclosed for property, plant and equipment (PPE) and right-of-use assets (ROA) totalled \$852.3 million and \$699.9 million for the Group and Company, respectively. This represented approximately 82.2% of total assets for the Group and 77.8% of total assets for the Company.</p> <p>In accordance with IAS 36, 'Impairment of Assets', management performed an assessment to determine whether there were any indications that PPE and ROA may be impaired at the reporting date. Resulting from the matters disclosed in the <i>Material uncertainty related to going concern</i> paragraph, management determined that indicators of impairment were present and therefore made a formal assessment of the recoverable amount for PPE and ROA to assess whether the recoverable amount of the assets exceeded their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost to sell (FVLCS) and its value in use (VIU). Resulting from this assessment, no impairment of PPE or ROA was recorded by management as at the reporting date.</p>	<p>With the assistance of our internal experts, we performed the following procedures, amongst others, over management's impairment assessment:</p> <p>We obtained an understanding of management's process used to identify the presence of indicators of impairment of the assets.</p> <p>We evaluated management's impairment assessment including the future cash flow forecasts, and the process by which they were prepared. This included testing the mathematical accuracy of the underlying calculations, agreeing to previously audited information where applicable and assessing management's forecast against comparable publicly available revenue information for the industry in which the Group and Company operate.</p> <p>We challenged management's key assumptions for revenue growth and discount rate by:</p> <ul style="list-style-type: none"><li>• evaluating these assumptions with reference to valuations of similar companies;</li><li>• comparing the key assumptions to externally derived data where available, including market expectations of investment return and projected economic growth; and</li><li>• sensitizing the revenue growth and discount rate used in management's cash flow projections.</li></ul>



## Key audit matter

## How our audit addressed the key audit matter

We focused on this area as the impairment assessment requires significant management judgements and estimation. This includes the estimation of future cash flows from the business, taking into consideration the key assumptions being the revenue growth and discount rate in the VIU calculation as well as the earnings multiple and the cost to sell in the FVLCS calculation.

We further compared the underlying information used to determine the earnings multiple to publicly available financial information. The cost to sell was compared to information collated from previous relevant business sale transactions adjusted for applicable rates of forecast taxes.

Resulting from the audit procedures performed, management's conclusion that the PPE and ROA assets were not impaired as at the reporting date was not unreasonable.

### **Valuation of pension plan liabilities (Group and Company)**

*Refer to notes 2(l), 4(b) and 16 to the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgements, estimates and balances.*

The Group and Company have a defined benefit pension plan, with a net asset balance, which is significant in the context of the overall statement of financial position of the Group and Company. Pension plan net assets amounted to \$36.3 million for both the Group and Company as at 30 June 2020 consisting of a gross asset balance of \$397.6 million and a gross liability of \$361.3 million, being the present value of funded obligations.

The pension plan liability estimate involves a number of key assumptions which can have a material impact on the calculation of the pension plan liability including;

- salary increases
- pension increases
- inflation
- discount rates and;
- mortality rates

We performed the following procedures on the valuation of pension plan liabilities:

- we evaluated management's assumptions relating to salary and pension increases and mortality rates by comparing them to national and industry averages;
- we assessed the appropriateness of the discount and inflation rates used in the valuation of the pension liability and agreed them to the rates issued by the Institute of Chartered Accountants of Jamaica;
- we evaluated the work of management's actuarial expert, including their independence, experience and objectivity; and
- we tested the completeness and accuracy of data extracted and supplied to the actuary, which is used to calculate the pension plan's surplus or deficit.





#### Key audit matter

Management uses external actuaries to assist in determining these assumptions and the liabilities within the pension plan.

We focused on this area as the valuation of the pension plan liability requires significant levels of judgement and technical expertise in determining appropriate assumptions.

#### How our audit addressed the key audit matter

Based on the audit evidence obtained, no material exceptions were noted relating to the data and assumptions used by management in the actuarial valuation of the pension plan liability.

#### Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and stand-alone financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and stand-alone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and stand-alone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and stand-alone financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

#### Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements

Management is responsible for the preparation of the consolidated and stand-alone financial statements that give a true and fair view in accordance with IFRS 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 stand-alone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and stand-alone financial statements, management is responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Group and Company's financial reporting process.

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### **Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and stand-alone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and stand-alone financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and stand-alone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and stand-alone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the consolidated and stand-alone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.





We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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#### 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 stand-alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

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The engagement partner on the audit resulting in this independent auditor's report is Kevin Powell.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

Chartered Accountants  
27 November 2020  
Kingston, Jamaica

# The Palace Amusement Company (1921) Limited

## Consolidated Statement of Comprehensive Income

Year ended 30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 \$'000	2019 \$'000
<b>Revenue</b>	5	919,843	1,112,639
Direct expenses		<u>(880,579)</u>	<u>(900,088)</u>
<b>Gross Profit</b>		39,264	212,551
Other operating income	6	6,883	6,137
Non-operating income	7	-	46,557
Administration expenses		<u>(174,485)</u>	<u>(186,739)</u>
<b>Operating (Loss)/Profit</b>		<u>(128,338)</u>	<u>78,506</u>
Finance costs – interest expense		<u>(5,471)</u>	<u>(1,696)</u>
<b>(Loss)/Profit before Taxation</b>		<u>(133,809)</u>	<u>76,810</u>
Taxation	10	<u>34,201</u>	<u>(6,448)</u>
<b>Net (Loss)/Profit</b>		<u>(99,608)</u>	<u>70,362</u>
<b>Other Comprehensive Income:</b>			
<i>Items that will not be reclassified to profit or loss in the future</i>			
Unrealised (losses)/gains on FVOCI investments, net of taxation		(3,466)	9,663
Re-measurement of post-employment benefit asset, net of taxation		<u>187</u>	<u>(12,535)</u>
Total other comprehensive income		<u>(3,279)</u>	<u>(2,872)</u>
<b>Total Comprehensive Income</b>		<u><u>(102,887)</u></u>	<u><u>67,490</u></u>
<b>Net (Loss)/Profit Attributable to:</b>			
Stockholders of the Company	11	(99,837)	82,431
Non-controlling interest		<u>229</u>	<u>(12,069)</u>
		<u><u>(99,608)</u></u>	<u><u>70,362</u></u>
<b>Total Comprehensive Income Attributable to:</b>			
Stockholders of the Company		(103,243)	79,389
Non-controlling interest		<u>356</u>	<u>(11,899)</u>
		<u><u>(102,887)</u></u>	<u><u>67,490</u></u>
<b>Earnings per Stock Unit Attributable to Stockholders of the Company</b>	12	<u><u>(69.48)</u></u>	<u><u>57.36</u></u>

# The Palace Amusement Company (1921) Limited

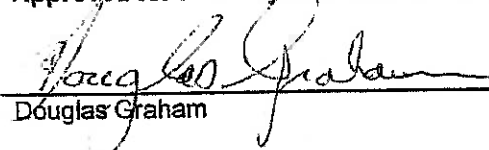
## Consolidated Statement of Financial Position


30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 \$'000	2019 \$'000
<b>Non-Current Assets</b>			
Property, plant and equipment	13	533,614	452,423
Investments	14	24,567	65,924
Right-of-use assets	29	318,749	-
Deferred tax assets	15	24,449	-
Post-employment benefit asset	16	36,365	37,749
		937,744	556,096
<b>Current Assets</b>			
Inventories	18	62,135	61,502
Receivables	19	29,993	46,046
Cash and cash equivalents	20	7,482	39,235
		99,610	146,783
<b>Current Liabilities</b>			
Payables	21	186,705	165,099
Taxation payable		4,866	8,509
Bank overdraft	20	23,595	-
Current portion of lease liabilities	29	71,944	-
Current portion of long-term liabilities	22	11,880	6,947
		298,990	180,555
<b>Net Current Liabilities</b>		(199,380)	(33,772)
		738,364	522,324
<b>Stockholders' Equity</b>			
Share capital	23	1,437	1,437
Capital reserve	24	165,984	165,984
Fair value reserve	25	23,872	27,465
Retained earnings	11	204,399	304,049
		395,692	498,935
<b>Non-Controlling Interest</b>		6,535	6,179
		402,227	505,114
<b>Non-Current Liabilities</b>			
Long term liabilities	22	80,337	7,520
Lease liabilities	29	255,800	-
Deferred tax liabilities	15	-	9,690
		336,137	17,210
		738,364	522,324

Approved for issue by the Board of Directors on 27 November 2020 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 2020

(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
<b>Balance at 1 July 2018</b>	1,437	1,437	165,984	17,972	297,955	18,078		501,426
<b>Total Comprehensive Income</b>								
Net profit	-	-	-	-	82,431	(12,069)		70,362
Other Comprehensive Income –								
Unrealised gains on FVOCI investments	-	-	-	9,493	-	170		9,663
Re-measurement of post-employment benefit asset	-	-	-	-	(12,535)	-		(12,535)
	-	-	-	9,493	69,896	(11,899)		67,490
<b>Transactions with Owners</b>								
Dividends paid	-	-	-	-	(2,875)	-		(2,875)
Capital distribution paid	-	-	-	-	(60,927)	-		(60,927)
<b>Balance at 30 June 2019</b>	1,437	1,437	165,984	27,465	304,049	6,179		505,114
<b>Total Comprehensive Income</b>								
Net loss	-	-	-	-	(99,837)	229		(99,608)
Other Comprehensive Income –								
Unrealised (losses)/gains on FVOCI investments	-	-	-	(3,593)	-	127		(3,466)
Re-measurement of post-employment benefit asset	-	-	-	-	187	-		187
	-	-	-	(3,593)	(99,650)	356		(102,887)
<b>Balance at 30 June 2020</b>	1,437	1,437	165,984	23,872	204,399	6,535		402,227

# The Palace Amusement Company (1921) Limited

## Consolidated Statement of Cash Flows

Year ended 30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

	2020 \$'000	2019 \$'000
<b>Cash Flows from Operating Activities</b>		
Cash provided by operating activities (Note 26)	35,524	81,138
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(136,130)	(289,114)
Proceeds from sale of property, plant and equipment	1,865	16,107
Encashment of investments	37,891	127,698
Interest received	1,106	5,173
Dividends received	1,284	235
Capital distribution received	-	46,557
Cash used in investing activities	(93,984)	(93,344)
<b>Cash Flows from Financing Activities</b>		
Long term loans repaid	(9,027)	(7,238)
Long term loan received	86,777	-
Principal elements of lease payments	(69,851)	-
Interest paid	(5,471)	(1,696)
Capital distribution paid	-	(60,927)
Dividends paid	-	(2,875)
Cash provided by/(used in) financing activities	2,428	(72,736)
	(56,032)	(84,942)
Exchange gain on foreign cash balances	684	4,812
Decrease in cash and cash equivalents	(55,348)	(80,130)
Cash and cash equivalents at beginning of year	39,235	119,365
<b>Cash and Cash Equivalents at End of Year (Note 20)</b>	(16,113)	39,235

Reconciliation of movements of liabilities to cash flows arising from financing activities:

Amounts represent bank and other loans, excluding bank overdraft.

	2020 \$'000	2019 \$'000
At 1 July	14,467	21,705
Loans received	86,777	-
Loans repaid	(9,027)	(7,238)
	92,217	14,467

# The Palace Amusement Company (1921) Limited

## Company Statement of Comprehensive Income

Year ended 30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 \$'000	2019 \$'000
<b>Revenue</b>		711,291	773,689
Direct expenses		<u>(667,254)</u>	<u>(619,175)</u>
<b>Gross Profit</b>		44,037	154,514
Other operating income	6	21,848	33,679
Non-operating income	7	-	30,451
Administration expenses		<u>(174,485)</u>	<u>(186,739)</u>
<b>Operating (Loss)/Profit</b>		(108,600)	31,905
Finance costs – interest expense		<u>(5,362)</u>	<u>(1,601)</u>
<b>(Loss)/Profit before Taxation</b>		(113,962)	30,304
Taxation	10	<u>28,873</u>	<u>(1,449)</u>
<b>Net (Loss)/Profit</b>	11	(85,089)	28,855
<b>Other Comprehensive Income:</b>			
<i>Items that will not be reclassified to profit or loss in the future -</i>			
Unrealised (losses)/gains on FVOCI investments, net of taxation		(4,747)	7,948
Re-measurement of post-employment benefit asset, net of taxation		<u>187</u>	<u>(12,535)</u>
Total other comprehensive income		<u>(4,560)</u>	<u>(4,587)</u>
<b>Total Comprehensive Income</b>		<u>(89,649)</u>	<u>24,268</u>



# The Palace Amusement Company (1921) Limited

## Company Statement of Financial Position

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 \$'000	2019 \$'000
<b>Non-Current Assets</b>			
Property, plant and equipment	13	381,191	308,824
Investments	14	12,226	54,863
Right-of-use assets	29	318,749	-
Deferred tax assets	15	24,388	-
Post-employment benefit asset	16	36,365	37,749
Due from subsidiaries	17/27	32,408	-
		<b>805,327</b>	<b>401,436</b>
<b>Current Assets</b>			
Inventories	18	59,063	57,919
Receivables	19	28,272	43,989
Cash and cash equivalents	20	7,445	38,011
		<b>94,780</b>	<b>139,919</b>
<b>Current Liabilities</b>			
Payables	21	175,910	139,095
Taxation payable		46	1,688
Bank overdraft	20	23,595	-
Current portion of lease liabilities	29	71,944	-
Current portion of long-term liabilities	22	11,880	6,947
		<b>283,375</b>	<b>147,730</b>
<b>Net Current Liabilities</b>		<b>(188,595)</b>	<b>(7,811)</b>
		<b>616,732</b>	<b>393,625</b>
<b>Stockholders' Equity</b>			
Share capital	23	1,437	1,437
Capital reserve	24	148,365	148,365
Fair value reserve	25	11,669	16,416
Retained earnings	11	74,897	159,799
		<b>236,368</b>	<b>326,017</b>
<b>Non-Current Liabilities</b>			
Due to subsidiaries	17/27	44,227	55,665
Long term liabilities	22	80,337	7,520
Lease liabilities	29	255,800	-
Deferred tax liabilities	15	-	4,423
		<b>380,364</b>	<b>67,608</b>
		<b>616,732</b>	<b>393,625</b>

Approved for issue by the Board of Directors on 27 November 2020 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 2020

(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
<b>Balance at 30 June 2018</b>	1,437	1,437	148,365	8,468	146,354	304,624
<b>Total Comprehensive Income</b>						
Net profit	-	-	-	-	28,855	28,855
Other Comprehensive Income –						
Re-measurement of post employment benefit asset	-	-	-	-	(12,535)	(12,535)
Unrealised gains on FVOCI investments	-	-	-	7,948	-	7,948
	-	-	-	7,948	16,320	24,268
<b>Transactions with owners</b>						
Dividends paid	-	-	-	-	(2,875)	(2,875)
<b>Balance at 30 June 2019</b>	1,437	1,437	148,365	16,416	159,799	326,017
<b>Total Comprehensive Income</b>						
Net loss	-	-	-	-	(85,089)	(85,089)
Other Comprehensive Income –						
Re-measurement of post employment benefit asset	-	-	-	-	187	187
Unrealised losses on FVOCI investments	-	-	-	(4,747)	-	(4,747)
	-	-	-	(4,747)	(84,902)	(89,649)
<b>Balance at 30 June 2020</b>	1,437	1,437	148,365	11,669	74,897	236,368

# The Palace Amusement Company (1921) Limited

## Company Statement of Cash Flows

Year ended 30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

	2020 \$'000	2019 \$'000
<b>Cash Flows from Operating Activities</b>		
Cash provided by operating activities (Note 26)	11,819	14,565
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(109,435)	(266,368)
Proceeds from sale of property, plant and equipment	1,865	16,107
Encashment of investments	37,891	127,698
Interest received	272	4,302
Dividend received	206	235
Capital distribution received	-	30,451
Cash used in investing activities	(69,201)	(87,575)
<b>Cash Flows from Financing Activities</b>		
Long term loans repaid	(9,027)	(7,238)
Long term loans received	86,777	-
Principal elements of lease payments	(69,851)	-
Interest paid	(5,362)	(1,601)
Dividends paid	-	(2,875)
Cash provided by/ (used in) financing activities	2,537	(11,714)
Exchange gain on foreign cash balances	(54,845)	(84,724)
	684	4,812
Decrease in cash and cash equivalents	(54,161)	(79,912)
Cash and cash equivalents at beginning of year	38,011	117,923
<b>Cash and Cash Equivalents at End of Year (Note 20)</b>	(16,150)	38,011

Reconciliation of movements of liabilities to cash flows arising from financing activities:  
Amounts represent bank and other loans, excluding bank overdraft.

	2020 \$'000	2019 \$'000
At 1 July	14,467	21,705
Loans received	86,777	-
Loans repaid	(9,027)	(7,238)
	92,217	14,467

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 65.95% 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 and Paramount Pictures;
- (ii) Vista Entertainment Panama, which represents Disney;
- (iii) ATM Film Distributors;
- (iv) Metropolitan Opera and By Experience, which represent National Theatre Live and Bolshoi Ballet; and
- (v) The parent company, which represents Warner Bros, 20th Century Fox, as well as Goldmine Productions and other independent distributors.

### 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 actions, 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.

#### ***Impact of the COVID-19 Pandemic***

As a result of Government imposed restrictions on social gatherings and other activities designed to prevent the spread of COVID-19 amongst its patrons and staff and the wider population, the Group temporarily suspended all theatre operations on 14 March 2020. Theatre operations remained closed for the entire fourth quarter of the financial year. The Group reopened its theatres on 8 July 2020 with the intent to operate at a maximum of 60% of individual theatre capacities. The theatres were again closed on 22 August 2020 in response to curfew hours implemented by the Government and reopened for a second time on 26 August 2020 with one show per day and a new start time. On 30 September 2020, the Group temporarily closed two of its cinemas.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

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

##### *Impact of the COVID-19 Pandemic (continued)*

As a result of these temporary suspended operations, the Group's revenues and expenses for the financial year ended 30 June 2020 are significantly lower than the revenues and expenses for the year ended 30 June 2019 with the exception of those additional expenses that would have resulted from the opening of the Sunshine Palace which came on stream during the period. In addition, the Group has experienced lower revenues and expenses in the period subsequent to the year end.

##### *Going Concern*

Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. Financial statements and, in particular, all general-purpose financial statements, are therefore prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

The COVID-19 pandemic has developed rapidly in 2020. The resulting impact of the pandemic on the operations and measures taken by the government to contain the pandemic have negatively affected the Group's and Company's results in the reporting period. The currently known impacts of COVID-19 on the Group and Company are:

- A decline in revenues for the 2020 financial year compared with the financial year in 2019 of 17% and 8% for the Group and Company respectively.
- A net loss of \$99.6 million and \$85.0 million for the Group and Company respectively.
- An operating cash inflow of \$35.5 million and \$11.8 million for the Group and Company respectively.
- Current liabilities exceeded current assets by \$199.4 million and \$188.6 million respectively for the Group and Company.
- Breach of debt covenants in relation to maintenance of a minimum Debt- Service Coverage and total debt to Tangible Net Worth ratios.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

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

##### *Going Concern (continued)*

In response to the COVID-19 pandemic, the Group and Company has taken and continues to take significant measures to preserve cash and control costs including the following:

- Suspension of non-essential operating expenditure, including marketing & promotional and travel and entertainment expenses; and where possible, reducing essential operating expenditures to minimum levels necessary while theatres were closed or operating on curtailed schedules.
- Terminated or deferred all non-essential capital expenditure.
- Implemented measures to reduce staff costs, including the curtailment of working hours as well as the number of days being worked for accounting and administrative staff.
- All theatre staff, with the exception of theatre managers, were laid off during the period of closure and have been working reduced hours since the resumption of operating activities.
- The Group also sought and was granted rent concessions from the Group's landlords during the period of disruption caused by the pandemic.
- Working with the Group's vendors and other business partners to manage, defer, and/or reduce related expenses and existing liabilities.
- Requesting deferral of income tax payments from Tax Administration Jamaica
- The Group also applied for and was granted a pension contribution holiday for the period April 2020 to June 2021.
- The Group has sought opportunities for generating additional income from other sources, primarily in the form of identifying locations for outdoor drive-in cinema. See Note 31 - Subsequent Events for details of contract secured with regards to the operation of a drive-in cinema.

Further, as discussed in Note 22 —Borrowings, the Company's lenders have granted a waiver from the maintenance covenants in the non-revolving credit agreements.

The Group and Company has also prepared a detailed budget and cashflow forecasts which entail plans for growth and amendment in the current business model.



# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

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

#### *Going Concern (continued)*

The Group's and Company's ability to generate sufficient cash to support its operations will depend on, among other things, the timing of a full resumption of operations and the timing of movie releases. While the Group and Company has a history of generating sufficient cash flows, there is no guarantee that such cash flows will be generated in the future given the current COVID-19 restrictions and the fact that there is currently no timeline for the further easing of these restrictions. The Group and Company however believes that the measures implemented, as discussed above, should facilitate orderly conducting of operations for the foreseeable future, and therefore, that the going concern basis of preparation of the financial statements, is appropriate.

However, the circumstances surrounding the pandemic represents a material uncertainty that may cast a doubt on the Group's and Company's ability to continue as a going concern and therefore whether the Group and Company will realise its assets and settle its liabilities in the ordinary course of business at the amounts recorded in the financial statements.

#### *Standards, interpretations and amendments to published standards effective in the current year*

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new standards, interpretations and amendments and has concluded that the following new standards, interpretations and amendments are immediately relevant to its operations.

**IFRS 16, 'Leases'**, (effective for annual periods beginning on or after 1 January 2019). In January 2019, the IASB published IFRS 16 which replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of use asset' for virtually all lease contracts. There is an optional exemption for lessees for certain short-term leases and leases of low-value assets. The adoption of IFRS 16 from 1 July 2019 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 16 [C7], comparative figures have not been restated. Details of the new accounting policy in relation to IFRS 16 are outlined in Note 2(o) and the impact on the financial statements on adoption of the new standard is disclosed in Note 30.

**IFRIC 23 'Uncertainty over income tax treatments'**, (effective for annual reporting periods beginning on or after 1 January 2019). This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates determined in applying this interpretation. The adoption of this amendment did not have an impact on the financial statements of the group.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

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

#### ***Standards, interpretations and amendments to published standards effective in the current year (continued)***

**Amendment to IFRS 9, 'Financial instruments'**, on prepayment features with negative compensation and modification of financial liabilities. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cashflows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. The adoption of this amendment did not have an impact on the financial statements of the group.

**Annual improvements 2015 – 2017.** These annual improvements are effective for annual periods beginning on or after 1 January 2020. These amendments include minor changes to the following standards:

- IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

There was no impact on adoption of these amendments.

**Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement** (effective annual periods beginning on or after 1 January 2020). These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.
- There was no impact on the adoption of this amendment.

#### ***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group***

The Group has concluded that the following standards, which are published but not yet effective, are relevant to its operations. These pronouncements are effective for annual periods beginning on or after year end dates noted and will be applied by the Group as of those dates unless otherwise indicated.

**Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors'** (effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of materiality and the meaning of primary users of general-purpose financial statements by defining them as existing and potential investors, lenders and other creditors. The Group is currently assessing the impact of this standard. The company will assess impact of future adoption of these amendments on its financial statements.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

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

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

**Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform** (effective for annual periods beginning on or after 1 January 2020). These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries. The company will assess impact of future adoption of these amendments on its financial statements.

**Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions** (effective for annual periods beginning on or after 1 June 2020). As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable

lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The company will assess impact of future adoption of these amendments on its financial statements.

**Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities** (effective for annual periods beginning on or after 1 January 2022). These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The company will assess impact of future adoption of these amendments on its financial statements.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (b) Basis of consolidation

##### ***Subsidiaries***

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through power over the entity.

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.

##### ***Subsidiaries***

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%

##### ***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 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (c) Foreign currency translation

##### **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 also the Group's functional currency.

##### **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 recognised in other comprehensive income.

#### (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	5-10 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 or loss.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 measurement categories:

- At fair value (either through OCI or through profit or loss); and
- At amortised cost

The classification is based on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses are recorded in profit or loss or OCI.

##### (ii) Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. 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 the risks and rewards of ownership.

##### (iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction cost directly attributable to the acquisition of the financial asset in the case of a financial asset not at fair value through profit or loss (FVPL). Transaction costs that are directly attributable to the acquisition of the financial asset carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

**Amortised costs** - Financial assets classified as amortised costs are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest



# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Financial instruments (continued)

##### *Financial assets (continued)*

##### *(iii) Measurement (continued)*

are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in gains/(losses). Impairment losses are presented as separate line item in profit or loss. The Group's financial assets measured at amortised cost comprise solely of 'trade and other receivables' and 'cash and bank balances'. The Group's financial assets measured at amortised cost also includes 'due from subsidiaries'.

- **FVOCI** – Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in investment income using the effective interest rate method. Foreign exchange gains and losses are presented in gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL** - Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Gains or losses on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

##### *Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payment is established.

Changes in the fair value of financial assets at FVPL are recognised in gains/(losses) in the profit or loss statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

##### *(iv) Impairment*

The group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost (include cash and cash equivalents) and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (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.

#### (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.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (k) Current and deferred income taxes (continued)

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 separate trustee-administered funds. 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 recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in the income statement.

#### (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 Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (n) Revenue recognition (continued)

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

#### (o) Leases

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (o) Leases (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The lease term is determined as the non-cancellable period of the lease and also takes account of extension and termination options if reasonably certain to be exercised. The assessment of reasonable certainty is only revised if a significant event or change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

#### Accounting policy until 30 June 2019

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment, where the Group assumes substantially all the benefits and risks of ownership, are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance charge is expensed to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The items of property, plant and equipment acquired under finance leasing contracts are depreciated over the shorter of the useful life of the asset or the lease term.

#### (p) 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.

#### (q) Dividend distribution

Dividend distributions to the Company's shareholders are 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.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management

#### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Management seeks to minimise potential adverse effects on the financial performance of the Group.

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

#### (i) Market risk

##### **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

Currency risk arises from film rental income and US dollar cash and bank balances. The Group manages this risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Group further manages this risk by maximising foreign currency earnings and holding net foreign currency assets.

##### **Concentration of currency risk**

The Group and Company are exposed to foreign currency risk in respect of US dollar receivables and cash and bank balances amounting to nil (2019 – \$9,707,000) and \$226,000 (2019 – \$12,366,000), respectively.

##### **Foreign currency sensitivity**

The following table indicates the sensitivity of profit before taxation to changes in foreign exchange rates. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated cash and bank and accounts receivable balances and adjusts their translation at the year-end for 6% (2019 – 6%) depreciation and a 2% (2019 – 4%) 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	Effect on	% Change in	Effect on
	Currency	Profit	Currency	Profit
	Rate	before Tax	Rate	before Tax
		30 June		30 June
		2020		2019
	2020	\$'000	2019	\$'000
Currency:				
USD	-6	14	-6	1,324
USD	+2	-5	+4	(883)



# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management (Continued)

### (a) Financial risk factors (continued)

#### (i) Market risk (continued)

##### **Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity securities price risk arising from its holding of FVOCI 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 or cash flows 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 fair value interest rate risk on its fixed 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 are due to mature within 3 months of the reporting date, and the Groups borrowings are at fixed rates.

##### **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 as these are at fixed rates and are carried at amortised cost.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (a) Financial risk factors (continued)

##### (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 companies, 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.

In assessing credit losses associated with trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The expected credit loss rates are based on the historical credit losses experienced within a three-year period before 30 June 2020. The historical rates are adjusted to reflect current and forward-looking information on the macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the Gross Domestic Product (GDP), the interest rate and the inflation rate of the country in which it sells its services to be the most relevant factors and accordingly adjusts the historical loss rates based on the expected changes in these factors.

On this basis, the loss allowance as at 30 June 2020 and 2019 was determined as follows for trade receivables:

<b>The Group and Company</b>		
	<b>Expected Credit Loss Rate</b>	<b>Gross Carrying Amount \$'000</b>
<b>30 June 2020</b>		
Current	1%	772
More than 30 days past due	1%	4,697
More than 90 days past due	55%	3,965
		9,434
Loss allowance		(1,414)
<b>Total</b>		<b>8,020</b>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (a) Financial risk factors (continued)

##### Credit risk (continued)

##### *Trade receivables (continued)*

30 June 2019	The Group and Company	
	Expected Credit Loss Rate	Gross Carrying Amount \$'000
Current	1%	22,148
More than 30 days past due	1%	2,116
More than 90 days past due	55%	691
		<u>24,955</u>
Loss allowance		<u>(786)</u>
<b>Total</b>		<u><u>24,169</u></u>

##### ***Due from subsidiary companies***

This represents the year end balance arising mainly from the Group's centralised treasury function. The subsidiaries conduct all transactions through their current accounts with the Company. The Company mainly has balances with the Cinema Company of Jamaica and the credit risk associated with these balances is considered low due to the credit quality of The Cinema Company of Jamaica.

##### ***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.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (a) Financial risk factors (continued)

##### (ii) Credit risk (continued)

The closing loss allowances for trade receivables as at 30 June 2020 reconcile to the opening loss allowance as follows:

	<b>The Group and Company</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening loss allowance as at 1 July	786	557
Increase in loss allowance recognised in income statement	924	229
Amounts recovered from previous provision	(30)	-
Receivables written off during the year as uncollectible	(266)	-
At 30 June	<u>1,414</u>	<u>786</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:

	<b>The Group and Company</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Independent cinemas	1,635	13,624
Advertising agencies	4,899	3,754
Other	2,900	7,577
	<u>9,434</u>	<u>24,955</u>
Less: Provision for credit losses	<u>(1,414)</u>	<u>(786)</u>
	<u>8,020</u>	<u>24,169</u>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(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. At the reporting date, the Group has an undrawn amount relating to a credit revolving facility. The Group has also taken various measures to reduce its expenses and to defer payments for some of its trade payables and accruals. These are in keeping with its response to going concern as outlined in Note 2.

##### **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 at contractual maturity dates, is as follows:

	<b>The Group</b>			
	<b>Within 1 Year \$'000</b>	<b>1 to 2 Years \$'000</b>	<b>2 to 5 Years \$'000</b>	<b>Total \$'000</b>
	<b>2020</b>			
Trade payables	78,742	-	-	78,742
Accruals and other payables	104,062	-	-	104,062
Bank overdraft	23,595	-	-	23,595
Long term liabilities	20,798	25,684	45,736	92,218
<b>Total financial liabilities</b>	<b>227,197</b>	<b>25,684</b>	<b>45,736</b>	<b>298,617</b>
	<b>2019</b>			
Trade payables	89,794	-	-	89,794
Accruals and other payables	69,131	-	-	69,131
Long term liabilities	7,936	4,282	3,944	16,162
<b>Total financial liabilities</b>	<b>166,861</b>	<b>4,282</b>	<b>3,944</b>	<b>175,087</b>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(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	
	<b>2020</b>			
Trade payables	78,717	-	-	78,717
Accruals and other payables	91,019	-	-	91,019
Due to subsidiary companies	44,227	-	-	44,227
Bank overdraft	23,595	-	-	23,595
Long term liabilities	20,798	25,684	45,736	92,218
<b>Total financial liabilities</b>	<b>258,356</b>	<b>25,684</b>	<b>45,736</b>	<b>329,776</b>
	<b>2019</b>			
Trade payables	87,567	-	-	87,567
Accruals and other payables	48,707	-	-	48,707
Due to subsidiary companies	55,665	-	-	55,665
Long term liabilities	7,936	4,282	3,944	16,162
<b>Total financial liabilities</b>	<b>199,875</b>	<b>4,282</b>	<b>3,944</b>	<b>208,101</b>

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 externally imposed capital maintenance requirements to which the Group is subjected, and with which they were in breach for the year ended 30 June 2020 (See note 22). The Group obtained a waiver letter from the financial institution for the breached requirements for the year ended 30 June 2020.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 fair value of financial instruments traded in active markets, such as FVOCI 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 only financial assets that are re-measured at fair value after initial recognition are equities of \$24,567,000 (2019 - \$65,924,000) and \$12,226,000 (2019 - \$54,378,000) for the Group and Company, respectively.

There were no transfers between levels during the year.

As at 30 June 2020, there were no unquoted equity instruments.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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

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

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

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

#### (b) Key sources of estimation uncertainty

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

##### *Retirement benefit obligations*

The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets 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.

##### *Impairment review for long lived assets*

As a result of the impact of COVID-19, property, plant and equipment (PPE) and right of use assets (ROA) were reviewed for impairment at the reporting date. An assessment was done to determine whether the carrying amount for these assets exceeded their recoverable amount. PPE and ROA does not generate independent cash flows and as such the recoverable amount for the CGU (the business) was used in the assessment.

The recoverable amount of an asset is the higher of its fair value less cost sell (FVLCS) and its value in use (VIU). The FVLCS was determined by the Group using a multiple of EBITDA for comparable companies in the United States of America and Canada. Adjustments were then made to account for size, marketability, local operating environment and cost to sell. To establish the VIU, the Group estimated future cash flows which are discounted to present value using an appropriate weighted average cost of capital. Any changes in the assumptions mentioned could result in an impact on the FVLCS or the VIU. A 10% decrease in the earnings multiple would result in a decrease in the FVLCS of \$74,144,000 which would not result in an impairment of PPE and ROA.



# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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### 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 measurement of segment results for Carib and Sunshine Palace. 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 measurement 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 measurement 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 \$54,020,000 (2019 - \$88,113,000) 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 2020

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segment Reporting (Continued)

	2020						
	Cinema Activities						
	Carib Cinema \$'000	Palace Cineplex \$'000	Palace Multiplex \$'000	Sunshine Palace \$'000	Film Activities \$'000	Screen Advertising Activities \$'000	Total \$'000
Revenue –							
Box office receipts	210,965	79,031	124,125	113,748	-	-	527,869
Confectionery sales	113,275	36,903	53,045	49,261	-	-	252,484
Film rental	-	-	-	-	330,245	-	330,245
Screen advertising	21,307	9,459	13,893	9,814	-	32,835	87,308
Other activities	2,090	6,349	5,962	5,647	-	-	20,048
	347,637	131,742	197,025	178,470	330,245	32,835	1,217,954
Eliminations							(298,111)
Revenue from external customers							919,843
				(38,475)			
Segment result <sup>(1)</sup>	(21,313)	978	2,643		55,478	21,275	20,586
Eliminations							16,877
							37,463
				541,411			
Segment assets <sup>(2)</sup>	156,176	35,513	100,977		116	123	834,316
Unallocated assets							203,038
Total assets							1,037,354
Segment liabilities <sup>(3)</sup>	3,228	22,341	78,920	273,150	-	-	377,639
Unallocated liabilities							257,488
Total liabilities							635,127
Other items –							
Capital expenditure	26,695	3,022	9,044	88,721	-	-	127,482
Eliminations							-
Unallocated head office capital expenditure							8,648
Total capital expenditure							136,130
Depreciation	17,871	3,564	5,402	20,277	73	19	47,206
Unallocated head office depreciation							7,733
Total depreciation							54,939
Interest expense	225	-	-	2,363	-	-	2,588
Unallocated head office interest expense							2,999
Eliminations							(116)
Total interest expense							5,471

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 5. Segment Reporting (Continued)

	2019						
	Cinema Activities						
	Carib Cinema \$'000	Palace Cineplex \$'000	Palace Multiplex \$'000	Sunshine Palace \$'000	Film Activities \$'000	Screen Advertising Activities \$'000	Total \$'000
<b>Revenue –</b>							
Box office receipts	355,178	117,377	164,494	-	-	-	637,049
Confectionery sales	186,694	54,504	72,372	-	-	-	313,570
Film rental	-	-	-	-	443,515	-	443,515
Screen advertising	26,750	11,801	17,517	-	-	33,899	89,967
Other activities	5	1,951	242	-	-	-	2,198
	<u>568,627</u>	<u>185,633</u>	<u>254,625</u>	<u>-</u>	<u>443,515</u>	<u>33,899</u>	<u>1,486,299</u>
Eliminations							(373,660)
Revenue from external customers							<u>1,112,639</u>
<b>Segment result <sup>(1)</sup></b>	<u>30,021</u>	<u>20,628</u>	<u>23,637</u>	<u>(5,885)</u>	<u>93,166</u>	<u>23,193</u>	<u>184,760</u>
Eliminations							<u>28,414</u>
							<u>213,174</u>
<b>Segment assets <sup>(2)</sup></b>	<u>150,464</u>	<u>15,382</u>	<u>20,768</u>	<u>250,858</u>	<u>190</u>	<u>143</u>	<u>437,805</u>
Unallocated assets							<u>265,074</u>
Total assets							<u>702,879</u>
<b>Segment liabilities <sup>(3)</sup></b>	<u>21,624</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,624</u>
Unallocated liabilities							<u>176,141</u>
Total liabilities							<u>197,765</u>
<b>Other items –</b>							
Capital expenditure	<u>22,746</u>	<u>929</u>	<u>5,907</u>	<u>249,306</u>	<u>96</u>	<u>23</u>	<u>279,007</u>
Eliminations							-
Unallocated head office capital expenditure							<u>10,108</u>
Total capital expenditure							<u>289,115</u>
<b>Depreciation</b>	<u>17,458</u>	<u>5,320</u>	<u>4,675</u>	<u>-</u>	<u>85</u>	<u>17</u>	<u>27,555</u>
Unallocated head office depreciation							<u>6,560</u>
Total depreciation							<u>34,115</u>
<b>Interest expense</b>	<u>485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>485</u>
Unallocated head office interest expense							<u>1,601</u>
Eliminations							<u>(390)</u>
Total interest expense							<u>1,696</u>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 5. Segment Reporting (Continued)

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

	<b>The Group</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit from reportable segments	37,463	213,174
Unallocated income -		
Other operating income	6,883	6,137
Non-operating income	-	46,557
Unallocated costs -		
Administrative expenses	(174,485)	(186,739)
Other	(787)	(1,108)
	(175,272)	(187,847)
Unallocated interest expense	(2,999)	(1,601)
Eliminations	116	390
	(2,883)	(1,211)
	<u>(133,809)</u>	<u>76,810</u>

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

	<b>The Group</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Segment assets from reportable segments	834,316	437,805
Unallocated assets -		
Property, plant and equipment	30,375	29,460
Investments	24,567	65,924
Deferred tax assets	24,449	-
Post-employment benefit asset	36,365	37,749
Inventories	50,624	51,730
Receivables	29,350	43,989
Cash and cash equivalents	7,308	36,222
	<u>1,037,354</u>	<u>702,879</u>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

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### 5. Segment Reporting (Continued)

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

	<b>The Group</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Segment liabilities from reportable segments	377,639	21,624
Unallocated liabilities -		
Deferred tax liabilities	-	9,690
Payables	183,477	146,662
Long term liabilities	45,550	11,280
Bank overdraft	23,595	-
Taxation payable	4,866	8,509
	<u>635,127</u>	<u>197,765</u>

### 6. Other Operating Income

	<b>The Group</b>		<b>The Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Dividend income	1,284	235	206	235
Gain/(loss) on sale of property, plant and equipment	1,865	(8,921)	1,865	(8,921)
Interest income	1,145	6,057	311	5,185
Management fees	-	-	16,877	28,414
Exchange gain on foreign balances	1,149	6,920	1,149	6,920
Other	1,440	1,846	1,440	1,846
	<u>6,883</u>	<u>6,137</u>	<u>21,848</u>	<u>33,679</u>

### 7. Non-Operating Income

	<b>The Group</b>		<b>The Company</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Capital distribution income	-	46,557	-	30,451
	<u>-</u>	<u>46,557</u>	<u>-</u>	<u>30,451</u>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 8. Expenses by Nature

Total direct and administration expenses:

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Advertising and promotion	23,869	24,500	16,866	14,364
Auditors' remuneration:				
Current year	5,250	5,830	4,250	4,600
Prior year	123	187	125	135
Bank security and fees	6,420	7,524	4,008	3,700
Cost of inventories recognised as expense	128,127	156,649	69,459	59,967
Depreciation	54,939	34,115	37,068	16,657
Film cost	268,468	342,852	268,468	342,852
Insurance	15,593	15,741	9,842	10,076
Legal and professional fees	5,590	3,839	4,543	3,405
Licence fees	5,715	6,817	3,499	3,132
Motor vehicle expenses	5,330	5,476	5,330	5,476
Other	26,529	27,211	20,439	21,269
Repairs and maintenance	38,122	36,862	26,712	23,021
Security	23,696	25,214	13,587	11,380
Staff costs (Note 9)	265,383	251,724	211,806	191,071
Stationery and supplies	25,283	26,130	16,697	14,246
Theatre rental	-	40,366	-	40,366
Lease interest expense	17,238	-	17,238	-
Amortization expense	61,608	-	61,608	-
Transportation and courier	2,674	2,378	1,805	1,653
Utilities	75,107	73,412	48,389	38,544
	<u>1,055,064</u>	<u>1,086,827</u>	<u>841,739</u>	<u>805,914</u>

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

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## 9. Staff Costs

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Wages and salaries	203,121	197,131	163,482	152,317
Payroll taxes – Employer's portion	20,808	19,402	15,817	13,932
Pension (Note 16)	5,690	2,586	5,690	2,586
Other	35,764	32,605	26,817	22,236
	<u>265,383</u>	<u>251,724</u>	<u>211,806</u>	<u>191,071</u>

## 10. Taxation

Taxation is computed on the profit for the year adjusted for tax purposes and comprises income tax at 25%.

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Current taxation	-	9,232	-	3,296
Prior year under accrual	-	8	-	8
Deferred taxation (Note 15)	(34,201)	(2,792)	(28,873)	(1,855)
	<u>(34,201)</u>	<u>6,448</u>	<u>(28,873)</u>	<u>1,449</u>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 10. Taxation (Continued)

The tax on the (loss)/profit before taxation differs from the theoretical amount that would arise using the applicable tax rate of 25%, as follows:

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
(Loss)/profit before taxation	(133,809)	76,810	(113,962)	30,304
Tax calculated at applicable tax rates	(33,452)	19,203	(28,491)	7,576
Adjusted for the effects of:				
Prior year under accrual	-	8	-	8
Income subject to different tax rates	(24)	(9,824)	(24)	(6,433)
Disallowed expenses	1	211	1	173
Permanent differences between depreciation and capital allowances	243	418	243	418
Employment Tax Credit	-	(3,140)	-	(596)
Other	(969)	(428)	(602)	303
	(34,201)	6,448	(28,873)	1,449



# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

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

	2020 \$'000	2019 \$'000
(a) Net (loss)/profit attributable to the stockholders of the Company is dealt with as follows in the financial statements of:		
The Company	(85,089)	28,855
The subsidiaries	(14,748)	53,576
	<u>(99,837)</u>	<u>82,431</u>
	2020 \$'000	2019 \$'000
(b) Retained earnings attributable to the stockholders of the Company are dealt with as follows in the financial statements of:		
The Company	74,897	159,799
The subsidiaries	129,502	144,250
	<u>204,399</u>	<u>304,049</u>

### 12. Earnings Per Stock Unit

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

	2020	2019
Net (loss)/profit attributable to stockholders (\$'000)	(99,837)	82,431
Number of ordinary stock units ('000)	1,437	1,437
Earnings per stock unit (\$ per share)	<u>(69.48)</u>	<u>57.36</u>

The Company has no potentially dilutive ordinary shares.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 13. Property, Plant and Equipment

	The Group					
	Freehold Land	Theatre Buildings	Other Buildings	Leasehold Improvements	Equipment, Fixtures & Motor Vehicles	Work In Progress
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or deemed cost -						
At 30 June 2018	46,229	73,404	19,700	63,920	550,297	1,552
Additions	-	-	-	12	39,797	249,306
Disposals	(745)	-	(18,906)	-	(16,874)	-
At 30 June 2019	45,484	73,404	794	63,932	573,220	250,858
Additions	-	-	-	40,518	95,612	-
Transfers	-	-	-	92,357	158,501	(250,858)
Disposals	-	-	-	-	(5,795)	-
At 30 June 2020	45,484	73,404	794	196,807	821,538	-
Depreciation -						
At 30 June 2018	104	38,235	2,960	63,920	427,431	-
Charge for the year	672	1,934	118	-	31,391	-
Relieved on disposal	-	-	(2,727)	-	(8,769)	-
At 30 June 2019	776	40,169	351	63,920	450,053	-
Charge for the year	672	1,934	-	2,984	49,349	-
Relieved on disposal	-	-	-	-	(5,795)	-
At 30 June 2020	1,448	42,103	351	66,904	493,607	-
Net Book Value -						
30 June 2020	44,036	31,301	443	129,903	327,931	-
30 June 2019	44,708	33,235	443	12	123,167	250,858

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 13. Property, Plant and Equipment (Continued)

	The Company						
	Freehold Land	Theatre Buildings	Other Buildings	Leasehold Improvements	Equipment, Fixtures & Motor Vehicles	Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or deemed cost -							
At 30 June 2018	1,010	6	19,700	63,920	338,217	1,552	424,405
Additions	-	-	-	12	17,051	249,306	266,369
Disposals	(745)	-	(18,906)	-	(16,874)	-	(36,525)
At 30 June 2019	265	6	794	63,932	338,394	250,858	654,249
Additions	-	-	-	40,518	68,917	-	109,435
Transfers	-	-	-	92,357	158,501	(250,858)	-
Disposals	-	-	-	-	(5,795)	-	(5,795)
At 30 June 2020	265	6	794	196,807	560,017	-	757,889
Depreciation -							
At 30 June 2018	-	3	2,960	63,920	273,381	-	340,264
Charge for the year	-	-	118	-	16,539	-	16,657
Relieved on disposal	-	-	(2,727)	-	(8,769)	-	(11,496)
At 30 June 2019	-	3	351	63,920	281,151	-	345,425
Charge for the year	-	-	-	2,984	34,084	-	37,068
Relieved on disposal	-	-	-	-	(5,795)	-	(5,795)
At 30 June 2020	-	3	351	66,904	309,440	-	376,698
Net Book Value -							
30 June 2020	265	3	443	129,903	250,577	-	381,191
30 June 2019	265	3	443	12	57,243	250,858	308,824

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 14. Investments

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Quoted equities – at fair value through OCI	24,567	28,033	11,741	16,487
Sagicor Sigma Investments – at fair value through P&L	-	37,891	-	37,891
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>24,567</u>	<u>65,924</u>	<u>12,226</u>	<u>54,863</u>

### 15. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 25%.

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 movement in deferred taxation is as follows:

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of year	(9,690)	(16,661)	(4,423)	(10,457)
Credited to profit or loss (Note 10)	34,201	2,792	28,873	1,855
(Charged)/credited to other comprehensive income	(62)	4,179	(62)	4,179
Balance at end of year	<u>24,449</u>	<u>(9,690)</u>	<u>24,388</u>	<u>(4,423)</u>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

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### 15. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Deferred tax assets to be recovered after more than 12 months	37,737	5,056	33,540	5,056
Deferred tax liabilities to be settled after more than 12 months	(13,227)	(14,704)	(9,091)	(9,437)

Deferred taxation is due to the following temporary differences:

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Tax losses carry forwards	35,084	-	30,887	-
Unrealised foreign exchange gains	(60)	(42)	(60)	(42)
(Accelerated)/decelerated capital allowances	(1,484)	(211)	2,652	5,056
Pension surplus	(9,091)	(9,437)	(9,091)	(9,437)
	24,449	(9,690)	24,388	(4,423)

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

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Profit or loss –				
Tax losses carry forwards	35,084	-	30,887	-
Unrealised foreign exchange (gains)/losses	(18)	448	(18)	448
Accelerated capital allowances	(1,273)	3,086	(2,404)	2,149
Pension surplus	408	(742)	408	(742)
	34,201	2,792	28,873	1,855
Other comprehensive income –				
Pension surplus	(62)	4,179	(62)	4,179
	34,139	6,971	28,811	6,034

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

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### 15. Deferred Income Taxes (Continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable periods is probable. Subject to agreement with Tax Administration Jamaica, losses of approximately \$141,806,000 for the Group and \$123,550,000 for the Company (2019 – \$1,468,000 and nil, respectively) are available for set off against future profits and may be carried forward indefinitely.

No deferred tax assets have been recognised on tax losses amounting to \$247,000 (2019 - \$247,000) and \$1,221,000 (2019 - \$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 \$152,228,000 (2019 - \$166,748,000).

### 16. Post-employment Benefit Asset

The amounts recognised in the statement of financial position are determined as follows:

	<b>The Group and Company</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Present value of funded obligations		
Head office employees' pension plan	(271,802)	(280,527)
Cinema employees' pension plan	(83,026)	(77,106)
	<u>(354,828)</u>	<u>(357,633)</u>
Fair value of plan assets:		
Head office employees' pension plan	286,946	298,491
Cinema employees' pension plan	110,683	116,689
	<u>397,629</u>	<u>415,180</u>
Limitation of asset due to uncertainty of obtaining economic benefits in Cinema employees' plan	<u>(6,436)</u>	<u>(19,798)</u>
Asset in the statement of financial position	<u>36,365</u>	<u>37,749</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 Sagicor Life Jamaica Limited. Retirement benefits are based on the average annual earnings in the last three years to retirement, and death benefits on members' accumulated contribution.

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

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## 16. Post-employment Benefit Asset (Continued)

### *Cinema employees' pension plan*

The Company participates in a defined benefit plan which is open to all permanent cinema employees and administered by Sagicor Life Jamaica Limited. Retirement benefits are based on the average annual earnings in the last three years to retirement, and death benefits on members' accumulated contribution.

The plans are valued annually by internal actuaries using the Projected Unit Credit Method. The latest actuarial valuation was done as at 30 June 2020.

The movement in the present value of funded obligations over the year is as follows:

	Head office employees' pension plan		Cinema employees' pension plan	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Balance at beginning of year	280,527	253,463	77,106	80,248
Current service cost	7,140	4,997	1,650	1,990
Interest cost	18,882	17,449	5,233	5,759
	306,549	275,909	83,989	87,997
Re-measurements - (Gains)/losses from change in financial assumptions	(35,478)	16,236	(7,266)	4,804
Experience losses/(gains)	11,939	11,648	7,901	(14,598)
	283,010	303,793	84,624	78,203
Members' contributions	7,022	6,332	2,249	2,743
Benefits paid	(30,606)	(44,606)	(3,847)	(3,840)
Purchased annuities	12,376	15,008	-	-
Balance at end of year	271,802	280,527	83,026	77,106

# The Palace Amusement Company (1921) Limited

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## 16. Post-employment Benefit Asset (Continued)

The movement in the fair value of plan assets during the year is as follows:

	Head office employees' pension plan		Cinema employees' pension plan	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of year	298,491	279,520	116,689	105,685
Interest income	20,471	19,769	8,130	7,840
Re-measurements -				
Return on plan assets, excluding amounts included in interest income	(23,425)	18,864	(13,978)	2,310
Members' contributions	7,022	6,332	2,249	2,743
Employers' contributions	2,617	3,604	1,440	1,951
Benefits paid	(30,606)	(44,606)	(3,847)	(3,840)
Purchased annuities	12,376	15,008	-	-
Balance at end of year	<u>286,946</u>	<u>298,491</u>	<u>110,683</u>	<u>116,689</u>

The movement on the asset ceiling during the year is as follows:

	Head office employees' pension plan		Cinema employees' pension plan	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of year	-	-	19,798	-
Interest on asset	-	-	1,386	-
Change in asset ceiling, excluding amounts included in interest expense	-	-	(14,748)	19,798
Balance at end of year	<u>-</u>	<u>-</u>	<u>6,436</u>	<u>19,798</u>



# The Palace Amusement Company (1921) Limited

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## 16. Post-employment Benefit Asset (Continued)

The amounts recognised in profit or loss are as follows:

	Head office employees' pension plan		Cinema employees' pension plan	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Current service cost	7,140	4,997	1,650	1,990
Interest cost	18,882	17,449	5,233	5,759
Interest income on plan assets	(20,471)	(19,769)	(8,130)	(7,840)
Interest on effect of asset ceiling	-	-	1,386	-
Total included in staff costs	5,551	2,677	139	(91)

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

	Head office employees pension plan				Cinema employees pension plan			
	2020		2019		2020		2019	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%
Pooled investment funds –								
Equity Fund	73,998	26	105,436	35	34,481	31	40,318	35
International Equity Fund	4,844	2	4,404	2	4,012	4	3,644	3
Mortgage and Real Estate Fund	20,731	7	27,642	9	15,581	14	16,118	13
Fixed Income Fund	56,623	20	43,824	16	18,537	17	18,487	16
Global Market Funds	12,613	4	12,204	4	4,220	4	4,081	4
Money Market Fund	3,140	1	3,116	1	1	-	1	-
Foreign Currency Fund	39,559	14	36,784	12	20,225	18	19,066	16
CPI- Indexed	11,256	4	10,145	3	1,126	1	2,263	2
Purchased annuities	63,598	22	53,750	18	13,390	12	14,071	12
Other	584	-	1,186	-	(890)	(1)	(1,360)	(1)
	286,946	100	298,491	100	110,683	100	116,689	100

# The Palace Amusement Company (1921) Limited

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## 16. Post-employment Benefit Asset (Continued)

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 contributions to the post-employment plan for the year ending 30 June 2020 are \$5,409,000 for cinema employees and \$11,081,000 for head office employees. The actual return on the plan assets was (\$3,716,000) and (\$2,954,000) for cinema and head office employees respectively (2019 - \$12,041,000 and \$42,496,000 respectively).

Movements in the amounts recognised in the statement of financial position:

	Head office employees' pension plan		Cinema employees' pension plan	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Asset at beginning of year	17,964	26,057	19,785	25,437
Amounts recognised in the income statement	(5,551)	(2,677)	(139)	91
Remeasurements recognised in OCI	114	(9,020)	135	(7,694)
Contributions paid	2,617	3,604	1,440	1,951
Asset at end of year	15,144	17,964	21,221	19,785

Taxation in relation to the remeasurements recognised in OCI is disclosed in note 15.

The principal actuarial assumptions used were as follows:

	Head office employees' pension plan		Cinema employees' pension plan	
	2020	2019	2020	2019
J\$ Discount rate	8.0%	7.0%	8.0%	7.0%
US\$ Discount rate	5.5%	6.0%	5.5%	6.0%
Inflation rate	4.0%	3.0%	4.0%	3.0%
Future salary increases	6.0%	5.0%	4.0%	3.0%
Future pension increases	-	-	2.0%	1.50%

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

# The Palace Amusement Company (1921) Limited

Notes to the Financial Statements

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## 16. Post-employment Benefit Asset (Continued)

### *Plan risks*

Through its defined benefit pension plans, the Group is exposed to a number of risks. The Group does not use derivatives to manage its plan risks. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. Pensions are secured through the purchase of annuities. The remaining assets are invested in segregated pooled funds. The Group has not changed the processes used to manage its risks from previous periods.

The most significant of these plan risks are detailed below:

#### (i) Investment risk

The plan liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields. If plan assets underperform in this yield, this will create a deficit.

The Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension scheme. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term assets with maturities that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations.

#### (ii) Changes in bond yields

A decrease in Government of Jamaica bond yields will increase plans' liabilities, although this will be partially offset by an increase in the return on plans' assets which are linked to debt investments.

#### (iii) Salary risk

The present value of the plans' liabilities is calculated with reference to the future salaries of members. Therefore, an increase in the salary of members will increase the plans' liabilities.

#### (iv) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the members, so increases in life expectancy will result in an increase in the plans' liabilities.

# The Palace Amusement Company (1921) Limited

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## 16. Post-employment Benefit Asset (Continued)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

### Head office employees

	Impact on post-employment obligations		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		\$'000	\$'000
Discount rate	1%	(28,772)	37,506
Future salary increases	1%	20,193	(17,129)
Future pension increases	1%	19,435	(17,083)
Life expectancy	1 year	2,306	(2,379)

### Cinema employees

	Impact on post-employment obligations		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		\$'000	\$'000
Discount rate	1%	(8,366)	10,974
Future salary increases	1%	4,558	(3,871)
Future pension increase	1%	8,477	(7,245)
Life expectancy	1 year	839	(861)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

## 17. Due from/to Subsidiary Companies

This represents the year end balance arising mainly from the Group's centralised treasury function. The subsidiaries conduct all transactions through their current accounts with the Company. No interest is charged on these balances. Interest is charged by the holding company on a reducing balance basis on these loans at the rate of 8% 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 nil (2019 - \$3,187,000).

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## 18. Inventories

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Confectionery and snacks	32,472	28,836	29,400	25,252
General stores	29,480	31,122	29,480	31,122
Goods in transit	183	1,544	183	1,545
	<u>62,135</u>	<u>61,502</u>	<u>59,063</u>	<u>57,919</u>

## 19. Receivables

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Trade receivables	9,434	24,955	9,434	24,955
Provision for doubtful debts	(1,414)	(786)	(1,414)	(786)
	<u>8,020</u>	<u>24,169</u>	<u>8,020</u>	<u>24,169</u>
Prepayments	3,744	6,021	3,237	4,126
Other	18,229	15,856	17,015	15,694
	<u>29,993</u>	<u>46,046</u>	<u>28,272</u>	<u>43,989</u>

## 20. Cash and Cash Equivalents

	The Group		The Company	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	7,482	39,235	7,445	38,011
Bank overdraft	(23,595)	-	(23,595)	-
Cash and cash equivalents	<u>(16,113)</u>	<u>39,235</u>	<u>(16,150)</u>	<u>38,011</u>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 21. Payables

	The Group		The Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Trade payables	80,598	96,970	80,573	94,743
Accruals and other payables	106,107	68,129	95,337	44,352
	<u>186,705</u>	<u>165,099</u>	<u>175,910</u>	<u>139,095</u>

### 22. Borrowings

#### (a) Bank overdraft

In the event that there is an overdraft balance with the bank, the Group and Company have bank overdraft facilities totalling \$25,072,000 (2019 - \$15,903,000) which attract interest at 9% (2019 – 9%) per annum.

#### (b) Financial Covenants

The bank requires maintenance of a minimum Debt- Service Coverage and Total Debt to Tangible Net Worth (TNW) ratios. As at year end, the Group did not meet these covenants. The Company received a bank waiver letter before year end from the financial institution in breach of these covenants for the year ended 30 June 2020 for a period of one year.

#### (c) Long term liabilities

	The Group and Company	
	2020 \$'000	2019 \$'000
Bank of Nova Scotia Jamaica Limited -		
Development Bank of Jamaica Limited, non-revolving term loan (i)	-	3,187
Non-revolving term loan (ii)	8,773	11,280
Non-revolving term loan (iii)	46,667	-
Promissory Notes (iv)	36,777	-
	<u>92,217</u>	<u>14,467</u>
Less: Current portion	<u>(11,880)</u>	<u>(6,947)</u>
	<u>80,337</u>	<u>7,520</u>

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

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### 22. Borrowings (Continued)

#### (c) Long term liabilities (continued)

- (i) This loan incurred an interest at a rate of 8% (2019 – 8%) per annum and was repaid in May 2020. The Cinema Company of Jamaica Limited, a wholly owned subsidiary, provided an unlimited guarantee in respect of this loan. This guarantee was supported by a first legal mortgage over the Carib Cinema. The loan was also secured by assignment of peril insurance in respect of the Carib cinema, at full market value.
- (ii) This loan was obtained in June 2017. The loan incurs interest at a rate of 9% and is repayable in December 2022. The Cinema Company of Jamaica Limited, 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 was obtained in August 2019. The loan incurs interest at a rate of 7% and is repayable in January 2023. The Cinema Company of Jamaica Limited, a wholly owned subsidiary, has provided an unlimited guarantee in respect of this loan. This guarantee was supported by a first legal mortgage over the Carib Cinema. The loan was also secured by assignment of peril insurance in respect of the Carib cinema, at full market value.
- (iv) These promissory notes are demand loans obtained during the financial year. The loans incur an interest rate of 7% per annum and is repayable in February 2027.

### 23. Share Capital

	2020 \$'000	2019 \$'000
Authorised - 1,500,000 ordinary shares		
Issued and fully paid – 1,437,028 stock units of no par value	1,437	1,437

### 24. Capital Reserve

	The Group		The Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Unrealised surplus on assets carried at deemed cost	1,727	1,727	1,373	1,373
Realised capital gains	163,868	163,868	146,992	146,992
Other	389	389	-	-
	165,984	165,984	148,365	148,365

### 25. Fair Value Reserve

This represents the unrealised surplus on revaluation of investments carried at FVOCI.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

30 June 2020

(expressed in Jamaican dollars unless otherwise indicated)

### 26. Cash Flows from Operating Activities

	The Group		The Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Net (loss)/profit	(99,608)	70,362	(85,089)	28,855
Items not affecting cash resources:				
Depreciation	54,939	34,115	37,068	16,657
(Gain)/loss on sale of property, plant and equipment	(1,865)	8,921	(1,865)	8,921
Interest income	(1,145)	(6,057)	(311)	(5,185)
Dividend income	(1,284)	(235)	(206)	(235)
Capital distribution income	-	(46,557)	-	(30,451)
Exchange gain on foreign balances	(1,149)	(6,920)	(1,149)	(6,920)
Interest expense	5,471	1,696	5,362	1,601
Lease interest expense	17,238	-	17,238	-
Amortisation expense	61,608	-	61,608	-
Taxation	(34,201)	6,448	(28,873)	1,449
	4	61,773	3,783	14,692
Changes in operating assets and liabilities:				
Inventories	(633)	(7,655)	(1,144)	(7,050)
Receivables	19,515	4,473	19,177	3,933
Post-employment benefit assets	1,633	(2,969)	1,633	(2,969)
Due from subsidiaries	-	-	(43,846)	(14,676)
Deferred Income	-	(3,008)	-	(3,008)
Payables	18,610	41,219	33,819	29,493
	39,129	93,833	13,422	20,415
Taxation paid	(3,605)	(12,695)	(1,603)	(5,850)
Cash provided by operating activities	35,524	81,138	11,819	14,565



# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

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### 27. Related Party Transactions and Balances

#### (a) Purchases of services

Film rental charged by the parent company for the year amounted to \$131,559,000 (2019 - \$133,420,000) respectively. Trade payables include \$69,919,000 (2019 - \$18,707,000) due to the parent company in respect of these expenses.

#### (b) Key management compensation

	2020 \$'000	2019 \$'000
Wages and salaries	53,766	56,482
Payroll taxes – Employer's portion	3,178	3,158
Pension	1,175	1,182
Other	6,230	5,898
	<u>64,349</u>	<u>66,720</u>
Directors' emoluments –		
Fees	1,530	3,285
Management remuneration (included above)	<u>32,501</u>	<u>33,981</u>

#### (c) Transactions between the Company and its subsidiaries

During the year, the Company earned management fees of \$16,877,000 (2019 – \$28,414,000), film revenue of \$126,235,000 (2019 – \$213,497,000) and screen advertising administrative fees of \$12,850,000 (2019 - \$16,179,000) from a subsidiary.

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

	2020 \$'000	2019 \$'000
Receivables -		
Subsidiary companies	<u>32,408</u>	<u>-</u>
Payables -		
Subsidiary companies	<u>44,227</u>	<u>55,665</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 22). The guarantee is secured by a first legal mortgage over the Carib cinema building.

### 28. Contingent Liabilities

At 30 June 2020, the Group and Company were contingently liable in respect of letters of credit issued to third parties in the ordinary course of business totalling \$9,578,000 (2019 - \$8,970,000). The Group and Company were also contingently liable for credit cards totalling \$6,850,000 (2019 - \$6,627,000).

# The Palace Amusement Company (1921) Limited

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### 29. Leases

The Company operates certain cinemas from leased premises and the minimum lease commitments under non-cancellable operating leases through to their expiry are:

This note provides information for leases where the Group is a lessee.

#### (a) Amounts recognised in the statement of financial position

	The Group and Company	
	30 June	1 July
	2020	2019
	\$'000	\$'000
Right-of-use assets		
Theatre buildings	318,749	380,357
Lease liabilities		
Current	71,944	65,281
Non-current	255,800	315,076
	327,744	380,357

The right-of-use assets in the statement of financial position relate to rental of commercial spaces leased for the theatre operations.

#### (b) Amounts recognised in the statement of profit or loss IFRS16

The Group and Company's Statement of Comprehensive Income shows amortization expense of \$61,608,000 (2019 - \$Nil) for right-of-use assets and interest expense relating to leases of \$17,238,000 (2019 - \$Nil).

### 30. Adoption of New Accounting Standards

The Group has adopted IFRS 16 Leases retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The impact arising from adoption of the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in Note 2(o).

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the leases of 6% as at 1 July 2019.

The adoption of IFRS 16 resulted in an increase in the lease liabilities of \$380,357,000 and a corresponding increase in the right-of-use assets of \$380,357,000 on 1 July 2019.

# The Palace Amusement Company (1921) Limited

## Notes to the Financial Statements

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### 30. Adoption of New Accounting Standards (Continued)

#### (i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

#### (ii) Measurement of lease liabilities

The table below shows the reconciliation of the operating lease commitments as at 30 June 2019 to the lease liabilities recognised as at 1 July 2019:

	<b>\$'000</b>
Operating lease commitments disclosed as at 30 June 2019	668,416
(Less): short-term leases not recognised as a liability	-
(Less): low-value leases not recognised as a liability	-
(Less): discounted using the interest rate implicit in the leases at the date of initial application	(288,059)
<b>Lease liability recognised as at 1 July 2019</b>	<b>380,357</b>
Of which are:	
Current lease liabilities	65,281
Non-current lease liabilities	315,076
	<b>380,357</b>

#### (iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

# The Palace Amusement Company (1921) Limited

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## 30. Adoption of New Accounting Standards (Continued)

*(iv) Adjustments recognised in the balance sheet on 1 July 2019*

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets - increase by \$380,357
- lease liabilities - increase by \$380,357

The net impact on retained earnings on 1 July 2019 was Nil.

## 31. Subsequent Event

The Company signed a license agreement on 21 August 2020 with Victoria Mutual Pensions Management Limited, the trustees of the Cable & Wireless Jamaica Pension Plan. The license was obtained for use of the land and buildings situated at 18 Dominica Drive, Kingston 5 as a Drive-in Cinema for a period of two years, beginning on 1 September 2020. The licence fee is \$600,000 per month while the curfew imposed by the Government of Jamaica remains in force when one show can be exhibited and will increase to \$1,000,000 per month subsequent to the curfew being lifted when two shows can be exhibited.