

# Goodyear Jamaica Limited

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## Notes to the Financial Statements

31 December 2000

### 1. Identification and Principal Activities

(a) Goodyear Jamaica Limited is a limited liability company incorporated and domiciled in Jamaica. It is a 60% subsidiary of the Goodyear Tire and Rubber Company, Akron, Ohio U.S.A. Its principal activities, the import and distribution of tyres, tubes and related rubber products, all of which are imported from affiliates.

(b) All amounts in these financial statements are stated in Jamaican dollars.

### 2. Significant Accounting Policies

#### (a) Basis of preparation

These financial statements have been prepared in accordance with and comply with Jamaican Accounting Standards, and have been prepared under the historical cost convention.

#### (b) Use of estimates

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### (c) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance. Interest income is recognised on an accruals basis unless collectability is in doubt.

(d) Foreign currency translation

Transactions during the year are converted into Jamaican dollars at appropriate rates of exchange ruling on transaction dates. Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the appropriate rates of exchange ruling on balance sheet date. Gains or losses arising from fluctuations in exchange rates are reflected in the profit and loss account.

(e) Depreciation

No depreciation is provided on freehold land. Other fixed assets are depreciated on the straight line basis at rates which will write off their carrying value over their expected useful lives. The rates are as follows:

Roadways and improvements	1%-4%
Freehold buildings	2 1/2%
Machinery, equipment, furniture & fixtures	5%-33 1/3%
Vehicles	25%

(f) Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprise cash at bank and in hand, and deposits held at call with banks.

(g) Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

(h) Inventories

Inventories are valued at the lower of costs and net realisable value, cost being determined as average landed costs.

(i) Deferred expenditure

Deferred expenditure represents store identification expenses and software licences. These expenses are written off over three years, commencing in the month of capitalisation for store identification expenses and in the month of completion of projects relating to the implementation of software.

(j) Deferred taxation

Deferred Tax is provided in full at the current rate of Income Tax, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

(k) Leases

Leases of fixed assets where the company 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 of the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest elements of the finance charged to the profit and loss account over the lease period. The fixed assets acquired under finance leasing contracts are depreciated over the shorter of the useful life of the assets on the lease term.

(l) Financial instruments

Financial instruments carried on the balance sheet include cash and bank, short term deposits, receivables, inventories, payables, dividends payable, amounts due to/from parent company and leases. The particular recognition methods are disclosed in the individual policy statements associated with each of them.

(m) Employee benefit costs

The company operates a defined contribution plan, the assets of which are generally held in a separate trustee-administered fund. The pension plan is generally funded by payments from employees and by the company, taking into account the recommendations of independent qualified actuaries. The company's contribution to the plan are charged to the profit and loss account in the year to which they relate.

3. Turnover

Turnover represents the wholesale price of goods to customers and excludes General Consumption Tax.

#### 4. Operating Profit

The following items have been charged/(credited) in arriving at operating profit:

	2000	1999
	\$'000	\$'000
Amortisation of deferred expenditure	2,434	1,509
Auditors' remuneration	1,100	1,050
Depreciation	5,566	4,832
Directors' emoluments -		
Fees	200	200
Management remuneration	5,149	4,541
Loss/(gain) on disposal of fixed assets	434	(838)
Staff costs (note 5)	<u>24,195</u>	<u>30,628</u>

#### 5. Staff Costs

	2000	1999
	\$'000	\$'000
Salaries	18,517	22,520
Termination costs	-	3,219
Statutory deductions	2,133	2,225
Pension costs	588	574
Other	<u>2,957</u>	<u>2,090</u>
	<b><u>24,195</u></b>	<b><u>30,628</u></b>

Average number of persons employed full-time by the company during the year was 20 (1999-21).

#### 6. Finance Income

	2000	1999
	\$'000	\$'000
Interest income	23,453	37,969

Net foreign exchange transaction gain	-	4,516
Interest expense -		
Bank	-	( 10)
Lease obligations	(1,834)	(1,621)
	<u>(1,834)</u>	<u>(1,631)</u>
	<b><u>21,619</u></b>	<b><u>40,854</u></b>
7. Exceptional Items		
	2000	1999
	\$'000	\$'000
Redundancy payments	-	(3,219)
Gain on disposal of factory building & land	<u>17,486</u>	<u>-</u>
	<b><u>17,486</u></b>	<b><u>(3,219)</u></b>

#### 8. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

	2000	1999
	\$'000	\$'000
Income tax at 33 1/3%	36,371	33,104
Over provision in prior year	-	( 327)
Deferred taxation	<u>(3,017)</u>	<u>( 731)</u>
	<b><u>33,354</u></b>	<b><u>32,046</u></b>

#### 9. Earnings per Stock Unit

Earnings per stock unit are based on net profit and 59,400,000 stock units in issue throughout both years.

#### 10. Cash and Short-Term Deposits

	2000	1999
	\$'000	\$'000
Cash at bank and in hand	49,642	80,192

Short-term deposits	43,668	116,748
	<u>93,310</u>	<u>196,940</u>

The weighted average effective interest rate on short-term deposits was 15.61% (1999-14.96%)

11. Receivables

	2000	1999
	\$'000	\$'000
Trade Receivables	131,070	98,903
Prepayments	4,044	9,044
Other receivables	<u>19,588</u>	<u>27,333</u>
	154,702	135,280
Less: Provision for doubtful debts	<u>(24,763)</u>	<u>(18,763)</u>
	<u>129,939</u>	<u>116,517</u>

12. Inventories

	2000	1999
	\$'000	\$'000
Merchandise	92,411	105,189
Goods in transit	<u>35,819</u>	<u>21,251</u>
	<u>128,230</u>	<u>126,440</u>

13. Long Term Receivables

	2000	1999
	\$'000	\$'000
Loans	23,497	26,389
NHT	<u>274</u>	<u>274</u>
	23,771	26,663
Less: Due within 12 months	<u>(15,520)</u>	<u>(9,729)</u>
	<u>8,251</u>	<u>16,934</u>

(a) Loans

This consists of a trade receivable balance that has been refinanced and monies lent to dealers for the purposes of working capital injection, replacement and installation of

computer and tyre equipment. The trade balance refinanced is secured by an instrument of mortgage and a personal guarantee. The dealer loans are secured on the assets required.

(b) NHT

This consists of contributions made up to 31 July 1979 which are, under the National Insurance Amendment Act 1976, refundable in the years 2001 to 2004.

14. Deferred Expenditure

	2000 \$'000	1999 \$'000
Balance as at 1 January	9,010	5,412
Additions	1,747	5,107
Amount amortised during the year	<u>(2,434)</u>	<u>(1,509)</u>
Balance as at 31 December	<u>8,323</u>	<u>9,010</u>

15. Fixed Assets

	Freehold Land, Roadways & Improvements	Freehold Buildings	Leasehold Improvements	Machinery and Equipment	Motor Vehicles	Construction in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost -							
1 January 2000	156	10,828	1,444	13,147	14,409	522	40,506
Additions	-	-	9,484	-	-	6,726	16,210
Disposal	(156)	(10,828)	(1,444)	(1,916)	(3,187)	-	(17,531)
Transfers to/(from)	-	-	-	1,118	4,768	(5,886)	-
31 December 2000	<u>-</u>	<u>-</u>	<u>9,484</u>	<u>12,349</u>	<u>15,990</u>	<u>1,362</u>	<u>39,185</u>
Depreciation -							
1 January 2000	56	3,997	1,405	7,284	8,093	-	20,835
Charge for the year	-	-	474	1,988	3,104	-	5,566
On disposals	<u>(56)</u>	<u>(3,997)</u>	<u>(1,405)</u>	<u>(1,722)</u>	<u>(2,429)</u>	<u>-</u>	<u>(9,609)</u>

At 31 December							
2000	-	-	474	7,550	8,768	-	16,792
Net Book Value -							
31 December							
2000	-	-	9,010	4,799	7,222	1,362	22,393
31 December							
1999	100	6,831	39	5,863	6,316	522	19,671

The vehicles included in fixed assets were acquired under finance leases; see Note 18.

#### 16. Payables

	2000	1999
	\$'000	\$'000
Trade payables	8,739	6,634
Accruals	10,648	15,510
Statutory deductions	493	647
Other payables	933	1,046
	<b><u>20,813</u></b>	<b><u>23,837</u></b>

#### 17. Related Party Transactions

- (a) During the year, the company paid royalties to its parent company totalling \$6,637,000. The company also purchased a substantial portion of its inventory from its parent company and affiliates amounting to \$389,806,000.
- (b) The company leases certain motor vehicles from Goodyear Jamaica Limited's Superannuation Scheme under finance lease agreements. Lease payments made during the year totalled \$4,937,000 (1999 - \$2,314,000).
- (c) During the year, the company issued a loan to its parent company totalling J\$57,000,000 & US\$750,000. The amounts are to be repaid in 2001. The interest rates are 15.9% and 6%, respectively.

#### 18. Finance Lease Obligations

The company has entered into finance lease arrangements with West Indies Trust Company Limited, at interest



rates ranging between 15% and 20% for the purchase of motor vehicles (note 15). Future payments under these lease commitments are as follows:

		2000	1999
		\$'000	\$'000
For the year ending 31 December	2000	-	4,737
	2001	5,134	3,505
	2002	3,307	1,421
	2003	<u>1,786</u>	<u>-</u>
Total minimum lease payments		10,227	9,663
Less: Finance charges		(2,579)	(2,360)
Present value of minimum lease payments		7,648	7,303
Less: Current portion		<u>(3,598)</u>	<u>(3,155)</u>
		<b><u>4,050</u></b>	<b><u>4,148</u></b>

#### 19. Deferred Income

The amount relates to instalments received from the sale of the factory located in St. Thomas. The sale was completed during 2000.

#### 20. Share capital

	2000	1999
	\$'000	\$'000
Authorised, issued and fully paid - 59,400,000 Ordinary shares of 20c each	<u>11,880</u>	<u>11,880</u>

#### 21. Dividends

	2000	1999
	\$'000	\$'000
First interim, paid out of unfranked income, gross \$1.00 (1999 - 82 cents)	59,400	48,708
Second interim, paid out of unfranked income, gross 10 cents (1999 - 28 cents)	<u>5,940</u>	<u>16,632</u>
	<b><u>65,340</u></b>	<b><u>65,340</u></b>

Dividends paid were subject to withholding tax of \$7,998,000 (1999 - \$10,014,000).

## 22. Financial Instruments

### (a) Currency risk

Cash, receivables and payables at 31 December 2000 include aggregate net foreign assets of approximately US\$1,538,500 (1999 - \$718,000 net foreign liabilities) in respect of transactions arising in the ordinary course of business.

### (b) Credit risk

The company has no significant concentrations of credit risk. Cash and short-term deposits are with substantial financial institutions.

### (c) Fair values

The amounts included in the financial statements for cash and bank balances, receivables, group balances, accounts payable and dividend payable reflect their approximate fair values because of the short-term maturity of these instruments.

The estimated fair values of other financial instruments are as follows:

	2000		1999	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
Long term receivables	23,771	16,996	26,663	18,149
Finance lease obligations	<u>7,648</u>	<u>7,648</u>	<u>7,303</u>	<u>7,303</u>

The estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented above are not necessarily indicative of the amounts that the company would realise in a current market exchange.

Fair values were estimated as follows:

#### (i) Long term receivables -

The fair value of the long term receivable instrument is based upon projected cash flows discounted at an estimated current market rate of interest.

No adjustment has been made to the carrying value as standard accounting practice does not currently require it.

(ii) Finance lease obligations -

The fair values of the finance lease obligations instrument approximate their carrying amount.

### 23. Superannuation Scheme

The company has a superannuation scheme which is administered by Trustees. The scheme is funded by mandatory employee contributions of 5% of salary with the option to contribute an additional 5%. Employer contributions are made as recommended by independent actuaries. Retirement and death benefits are based on contributions. The latest actuarial valuation, which was as of 31 December 1999, disclosed that the scheme was adequately funded at that date.

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