

GOODYEAR JAMAICA LIMITED 1996

Notes to the Financial Statements

31 December 1996

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES:

The company is incorporated in Jamaica and is a 60% subsidiary of the Goodyear Tire and Rubber Company, Akron, Ohio, U.S.A . Its principal activities until March 1997 were the manufacture and import of tyres, tubes and related rubber products (note 17). At present all of its products are imported from affiliates.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Valuation of Inventories

Inventories are valued on the following bases:

Raw materials and supplies at average landed cost. Work-in-progress and finished goods at the lower of standard cost and net realisable value. Imported tubes and tyres at the lower of actual cost and net realisable value, cost being determined on a first-in-first-out basis.

(b) 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 values over their expected useful lives. The rates are as follows:

Roadways and improvements 1 2/3 - 4%

Freehold buildings	2 1/2%
Furniture and fixtures	5 - 20%
Machinery and equipment	5 - 33 1/3%
Vehicles	25%

(c) Foreign currency translation

Foreign currency balances are translated into Jamaican dollars at the appropriate rates of exchange ruling at balance sheet date and any resulting gain or loss is reflected in income for the year.

(d) Deferred taxation

Deferred taxation is provided at the current rate of income tax on the difference by which capital allowances claimed for taxation purposes on fixed assets exceed the depreciation charged against profits in respect of those assets.

(e) Leases

The present value of the minimum lease payments under finance leases is capitalised as fixed assets and a corresponding obligation to the lessor recorded.

Lease payments are treated as consisting of principal and finance charges. The finance charges are recorded so as to give a constant periodic rate of return on the outstanding obligation.

3. TURNOVER:

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

4. RELATED PARTY TRANSACTIONS:

(a) Technical and administration fees of \$14,224,000 (1995 \$11,452,000) were charged by the parent company. The company also purchased a substantial amount of its raw materials, machinery and spare parts from its parent and affiliates.

(b) The company leases certain motor vehicles from Goodyear Jamaica Limited's

Superannuation Scheme under operating agreements. Lease payments during the year amounted to \$717,000 (1995 - \$755,000).

5. PROFIT BEFORE TAXATION AND EXTRAORDINARY ITEMS:

The following have been charged/(credited):

	1996 \$'000	1995 \$'000
Auditors' Remuneration		
Current year	1,320	1,050
Depreciation and amortization	10,930	8,045
Directors' emoluments -		
Fees	100	48
Management remuneration	7,275	8,171
Exchange (gain)/loss	(6,075)	23,554
Interest income	<u>(27,578)</u>	<u>(19,557)</u>

6. TAXATION:

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

	1996 \$'000	1995 \$'000
Income tax at 33 1/3%	33,693	23,631
Prior year tax adjustment	(692)	(132)
Deferred taxation	4,263	4,063
	<u>37,264</u>	<u>27,562</u>

The company incurred a tax loss of \$8,334,000 as a result of the extraordinary items (note 7). This amount may be carried forward indefinitely against future taxable profits.

7. EXTRAORDINARY ITEMS:

This consists of redundancy costs as a result of staff layoffs and other costs arising out of the closure of the company's factory located at Morant Bay,

St. Thomas (Note 17) as follows:

	1996	1995
	\$'000	\$'000
Redundancy costs	67,945	-
Other costs	41,471	-
Less: taxation attributable	<u>(33,693)</u>	<u>-</u>
	<u>75,723</u>	<u>-</u>

8. DIVIDENDS:

	1996	1995
	\$'000	\$'000
Interim dividend paid 15 cent per ordinary stock	<u>8,910</u>	<u>-</u>

Dividends paid in 1996 were subject to withholding tax of \$1,340,000. No dividends were paid or proposed for 1995.

9. EARNINGS/ (LOSS) PER STOCK UNIT:

Earnings/(loss) per stock unit is based on the net profit/(loss) before and after extraordinary item and 59,400,000 stock units in issue throughout both years.

10. INVENTORIES:

	1996	1995
	\$'000	\$'000
Raw materials and machine spares	97,762	106,675
Work in progress	9,092	4,380
Finished goods	<u>100,814</u>	<u>118,028</u>
	<u>207,668</u>	<u>229,083</u>

11. LONG TERM RECEIVABLE:

This consists of National Housing Trust contributions made up to 31 July 1979 which are, under the National Insurance Amendment Act 1976, refundable in the

years 2001 to 2004.

12. FIXED ASSETS:

	Freehold Land, Roadways & Improvements	Freehold Buildings	Leasehold Improvements	Machinery and Equipment	Vehicles	Assets Capitalised under Finance Leases	Construction in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost -								
At 1 January 1996	156	10,164	1,343	60,680	97	13,845	15,969	102,254
Additions	-	-	87	-	-	-	20,355	20,442
Disposals	-	-	-	(1,742)	-	(942)	-	(2,684)
Transfers to/(from)	-	168	-	19,752	2,543	2,691	(25,154)	-
At 31 December 1996	<u>156</u>	<u>10,332</u>	<u>1,430</u>	<u>78,690</u>	<u>2,640</u>	<u>15,594</u>	<u>11,170</u>	<u>120,012</u>
Depreciation								
At 1 January 1996	52	3,414	1,096	25,824	97	4,655	-	35,138
Charge for the year	2	284	309	7,238	53	3,044	-	10,930
On disposals	-	-	-	1,742	-	(422)	-	(2,164)
At 31 December 1996	<u>54</u>	<u>3,698</u>	<u>1,405</u>	<u>31,320</u>	<u>150</u>	<u>7,277</u>	<u>-</u>	<u>43,904</u>
Net Book Value -								
31 December 1996	102	6,634	25	47,370	2,490	8,317	11,170	76,108
31 December 1995	104	6,750	247	34,856	-	9,190	15,969	67,116

13. LONG TERM DEBT:

The company has entered into finance lease arrangements with West Indies Trust Company Limited for the purchase of motor vehicles (note 12). Future payments under these lease commitments are as follows:

1996	1997
\$'000	\$'000

For the year ending 31 December 1996		
1997	-	7,477
1998	7,409	6,693
1999	4,418	3,616
2000	1,814	595
	<u>1,015</u>	<u>-</u>
Total minimum lease payments	14,656	18,381
Less: Finance charges	<u>4,331</u>	<u>6,071</u>
Present value of minimum lease payments	10,325	12,310
Less: Current portion of long term debt	<u>4,943</u>	<u>3,464</u>
	<u>5,382</u>	<u>8,846</u>

14. BANK BORROWINGS:

Bank borrowings are partially secured by mortgages over land and buildings situated at the plant and a bill of sale on machinery.

15. SHARE CAPITAL:

	1996	1995
	\$'000	\$'000
Authorised -		
59,400,000 Ordinary stock units of 20c each	11,880	11,880
Issued and fully paid		
59,400,000 Ordinary stock units of 20c each	11,880	11,880

16. 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 and voluntary contributions up to a maximum of 10%. Employer contributions are made as recommended by independent actuaries.

Retirement and death benefits are based on career earnings. The latest actuarial valuation, which was as of 31 December 1993 disclosed that the scheme was adequately

funded at that date.

Employer contributions to the scheme amounted to \$2,970,744 (1995 - \$1,609,253).

17. SUBSEQUENT EVENT:

On 21 March 1997, an announcement was made by the company that the operations at the factory located in Morant Bay, St. Thomas would be discontinued with immediate effect. The company will instead supply the Jamaican market with tyres and other products imported from its affiliates. A provision of \$109,416,000 has been made in the financial statements for redundancy and other costs, of which \$70,070,000 has been paid to date. The company intends to sell these facilities and it is proposed to write the company's factory land, buildings, machinery and inventories for manufacturing down to net realisable value, if below carrying amount, pending sale but this has not yet been done because professional estimates thereof are not yet available.