Goodyear Jamaica Limited

Notes to the Financial Statements

31 December 2002

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1 Identification and Principal Activities

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

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

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 collectibility 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) Fixed assets and depreciation

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

Leasehold improvements	20%
Machinery, equipment, furniture & fixtures	10%-20%
Vehicles	25%

(f) Cash and cash equivalents

For the purposes of the cash flow 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 element of the finance cost is 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 or the lease term.

(l) Financial Instruments

Financial instruments carried on the balance sheet include cash and short term deposits, receivables, group balances, long term receivables, payables, dividends payable and finance lease obligations.

The fair values of the company's financial instruments are discussed in note 21.

(m) Employee benefit costs

The company operates a defined benefit 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 is 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:

	2002 $'000	2001 $'000
Amortisation of deferred expenditure	2,310	3,359
Auditors' remuneration - current	1,300	1,225
- prior year	-	25
Depreciation	7,600	6,902
Directors' emoluments -		
Fees	200	200
Management remuneration	7,111	5,558
Loss/(gain) on disposal of fixed assets	42	(965)
Inventory write-down	-	15,358
Staff costs (note 5)	31,022	26,603

5 Staff Costs

	2002 $'000	2001 $'000
Salaries and wages	25,185	21,970
Statutory contributions	2,545	2,401
Pension costs	202	201
Other	3,090	2,031
	31,022	26,603

Average number of persons employed full-time by the company during the year was 16 (2001- 18).

6 Finance Income, net

	2002 $'000	2001 $'000
Interest income	13,334	17,371
Interest expense -		
Bank	(2)	(1)
Lease obligations	(596)	(1,517)
	(598)	(1,518)
	12,736	15,853
	=======	=======

7 Taxation

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

	2002 $'000	2001 $'000
Income tax at 33 1/3%	17,012	27,078
Prior year over provision	(220)	-
Deferred taxation (note 18)	(2,332)	6,308
	14,460	33,386
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8 Earnings per Stock Unit

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

9 Cash and Short-Term Deposits

	2002 $'000	2001 $'000
Cash at bank and in hand	57,481	64,116
Short-term deposits	80,655	21,916
	138,136	86,032
	=======	======

The weighted average effective interest rate on short-term deposits was 14.33% (2001-13.78%)

10 Long Term Receivables

	2002	2001
	$'000	**$'000**
Loans	21,600	20,834
National Housing Trust (NHT)	274	274
	21,874	21,108
Less: Due within 12 months	(21,133)	(20,834)
	741	274
	========	========

(a) Loans

The loans consist of trade receivable balances that have 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 financed 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 2003 and 2004.

11 Receivables

	2002	2001
	$'000	**$'000**
Trade	142,638	140,821
Prepayments	3,024	7,578
Other	31,159	22,917
	176,821	171,316
Less: Provision for doubtful debts	(30,490)	(23,506)

	146,331	147,810
	========	========

12 Related Party Transactions

(a) During the year, the company paid royalties to its parent company totalling $6,563,000 (2001 -$7,537,000). The company also purchased a substantial portion of its inventories from its parent company and affiliates amounting to $462,616,000 (2001 - $482,687,000).

(b) The company leased certain motor vehicles from Goodyear Jamaica Limited's Superannuation Scheme under finance lease agreements. Lease payments made during the year totalled $3,807,000 (2001 -$5,579,000)

(c) During 2001, the company renegotiated loans to its parent company totalling J$57,000,000 and US$260,000. The amounts were repaid during 2002.

13 Inventories

	2002	**2001**
	$'000	**$'000**
Merchandise	109,425	79,674
Goods in transit	49,859	38,251
	159,284	117,925
	=======	=======

14 Deferred Expenditure

	2002	**2001**
	$'000	**$'000**
Balance at 1 January	5,243	8,323
Additions	41	279
Amount amortised during the year	(2,310)	(3,359)
Balance at 31 December	2,974	5,243
	=======	=======

15 Fixed Assets

	Leasehold Improvements $'000	Machinery Equipment and Furniture & Fixture $'000	Motor Vehicles $'000	Leased Motor Vehicles $'000	Total $'000
At Cost -					
1 January 2002	10,508	13,885	4,741	12,735	41,869
Additions	-	1,871	639	-	2,510
Disposal	-	(336)	-	-	(336)
31 December 2002	10,508	15,420	5,380	12,735	44,043
Depreciation -					
1 January 2002	2,491	9,292	889	7,767	20,439
Charge for the year	2,040	1,763	613	3,184	7,600
On disposals	-	(281)	-	-	(281)
At 31 December 2002	4,531	10,774	1,502	10,951	27,758
Net Book Value -					
31 December 2002	5,977	4,646	3,878	1,784	16,285
31 December 2001	8,017	4,593	3,852	4,968	21,430

16 Finance Lease Obligations

The company has entered into finance lease arrangements with West Indies Trust Company Limited, at interest rates ranging between 15% and 17% for the purchase of motor vehicles (note 15). Future payments under these lease commitments are as follows:

		2002 $'000	2001 $'000
For the year ending 31 December			
	2002	-	3,308
	2003	1,429	1,429
Total minimum lease payments		1,429	4,737
Less: Finance charges		(107)	(703)
Present value of minimum lease payments		1,322	4,034
Less: Current portion		(1,322)	(2,408)
		-	1,626

17 Payables

	2002 $'000	2001 $'000
Trade	3,152	6,112
Accruals	9,783	8,517
Statutory deductions	576	469
Other	5,942	8,001
	19,453	23,099

18 Deferred Taxation

	2002 $'000	2001 $'000
Balance at 1 January	(3,212)	3,096
Charge for the year (note 7)	2,332	(6,308)
Balance at 31 December	(880)	(3,212)

19 Share Capital

	2002 $'000	2001 $'000
Authorised, issued and fully paid - 59,400,000 Ordinary shares of 20c each	11,880	11,880

20 Dividends

	2002 $'000	2001 $'000
First interim, paid out of unfranked income, gross $0.10 (2001 - $0.70)	5,940	41,680
Second interim, paid out of unfranked income, gross $0.60 (2001 - nil)	35,640	-
	41,580	41,680

Dividends paid were not subject to withholding tax

21 Financial Instruments

(a) Currency risk

Cash, receivables and payables at 31 December 2002 include aggregate net foreign assets of approximately US$80,000 and liabilities of Euro 177,000 and Yen 4,706,000 (2001 - US$1,090,000).

(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:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Long term receivables	21,600	21,600	20,834	20,834
Finance lease obligations	1,322	1,322	4,034	4,034
	======	======	======	======

The estimated fair values have been determined using available market information and appropriate valuation methodologies. However, considerable judgment 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 is based upon projected cash flows

discounted at an estimated current market rate of interest.

(ii) Finance lease obligations -
The fair values of the finance lease obligations approximate their carrying amount because the interest rates implicit in the leases are at market rates.

22 Superannuation Scheme

The company has a superannuation scheme that 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. The latest actuarial assessment as at 31 December 1999, disclosed that the scheme was adequately funded at that date. An assessment at 31 December 2002 has not been finalised to date.