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Ben Johnson and Company Limited

**Accounts – 31 December 1986
Together with Directors' and
Auditors' Reports**



BEN JOHNSON AND COMPANY LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Ben Johnson and Company Limited will be held at the offices of the Company at Boroughbridge Road, York at 10.45 a.m. on 12 August 1987 for the following purposes -

As ordinary business -

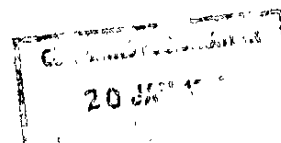
- (1) To receive and approve the Directors' Report and the Accounts for the year ended 31 December 1986.
- (2) To re-appoint Messrs. Arthur Andersen & Co. as Auditors of the Company and authorise the Directors to determine their remuneration.
- (3) To transact any other ordinary business of an Annual General Meeting.

By Order of the Board


C.H. Kenton
Secretary

Boroughbridge Road,
York YO2 5SS.

21 July 1987



BEN JOHNSON AND COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1986

The directors present their annual report on the affairs of the company together with the accounts and auditors' report for the year ended 31 December 1986.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW:

The principal activities of the company are the manufacture of high quality colour printing, the production of telephone directories and computer software manuals, distribution of telephone directories and the retailing of stationery and office equipment.

During 1986 the company took delivery of a new high speed press. There were initial difficulties following the commissioning of the press and, although these are largely resolved now, they did have an adverse impact upon profits in the second half of 1986. In the Magazine and Catalogue sector of the business, trading conditions were extremely difficult and no substantial improvement is anticipated in the early part of 1987.

RESULTS AND DIVIDENDS:

Results are as follows -

Retained profit at 31 December 1985	£ 10,849,555
Profit for the financial year	4,188,180
	<hr/>
Retained profit at 31 December 1986	£ 15,037,735

The directors do not recommend payment of a dividend.

DIRECTORS AND THEIR INTERESTS:

The directors who served during the year were -

J.A. Capstick (resigned 1 October 1986)
J.W.D. Ward
A.J. Dickin (resigned 4 June 1986)
C.H. Renton
P.M. Sweet
J. Craft
K.B. Dallas
D.F. Burn
I. McDonald (resigned 29 January 1987)
P.J. McQuillan (appointed 9 October 1986)

The directors do not have any interests required to be disclosed under Section 235 of the Companies Act 1985.

FIXED ASSETS:

Information relating to changes in tangible fixed assets is given in Note 8 to the accounts.

The directors are of the opinion that the land and buildings, which have a net book value of £4,393,137, have a continuing use value in excess of this figure.

DISABLED EMPLOYEES:

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

EMPLOYEE CONSULTATION:

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through circulation of information to employees via notice boards, production of a monthly in-house bulletin and presentations given at regular intervals.

AUDITORS:

The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen & Co. as auditors for the ensuing year.

BY ORDER OF THE BOARD:



C.H. Ranton
Secretary

21 July 1987

To the members of BEN JOHNSON AND COMPANY LIMITED:

We have audited the accounts set out on pages 6 to 17 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, give a true and fair view of the state of affairs of the company at 31 December 1986 and of the profit and source and application of funds for the year then ended, and comply with the Companies Act 1985.

Arthur Andersen & Co.

Arthur Andersen & Co.

Leeds

21 July 1987

DEE JOHNSON AND COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>Note</u>	<u>1986</u>	<u>1985</u>
TURNOVER	2	£ 64,953,115	£ 61,932,946
Cost of sales		57,589,457	53,512,251
GROSS PROFIT		7,363,658	8,420,695
Other operating expenses	3	4,323,413	3,988,059
OPERATING PROFIT		3,040,245	4,432,636
Interest receivable and similar income		952,055	320,402
Interest payable and similar charges	4	122,838	218,862
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	3,869,462	4,534,176
Tax credit (charge) on profit on ordinary activities	7	318,718	(200,718)
PROFIT FOR THE FINANCIAL YEAR		4,188,180	4,333,458
RETAINED PROFIT, at 31 December 1985		10,849,555	6,516,097
RETAINED PROFIT, at 31 December 1986		£ 15,037,735	£ 10,849,555

The accompanying notes are an integral part of this profit and loss account.

BEN JOHNSON AND COMPANY LIMITED

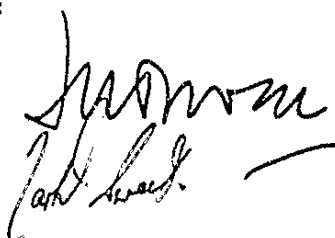
BALANCE SHEET -- 31 DECEMBER 1986

	<u>Note</u>	<u>1986</u>	<u>1985</u>
FIXED ASSETS			
Tangible assets	8	£ 7,562,217	£ 7,182,583
CURRENT ASSETS			
Stocks	10	6,601,983	5,171,980
Debtors	11	14,324,652	10,088,140
Cash at bank and in hand		9,551,972	8,615,143
		<u>30,478,607</u>	<u>23,875,263</u>
CREDITORS: Amounts falling due within one year	12	12,267,681	9,144,596
NET CURRENT ASSETS		<u>18,210,926</u>	<u>14,730,667</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		25,773,143	21,913,250
CREDITORS: Amounts falling due after more than one year	13	96,179	105,746
PROVISION FOR LIABILITIES AND CHARGES	14	1,228,000	1,546,718
NET ASSETS		<u>£ 24,448,964</u>	<u>£ 20,260,784</u>
CAPITAL AND RESERVES			
Called up share capital	15	£ 5,157,850	£ 5,157,850
Revaluation reserve	16	253,379	253,379
Capital contribution	16	4,000,000	4,000,000
Profit and loss account	16	15,037,735	10,849,555
TOTAL CAPITAL EMPLOYED		<u>£ 24,448,964</u>	<u>£ 20,260,784</u>

SIGNED ON BEHALF OF THE BOARD:

J.W.D. Ward)
) Directors
 P.M. Sweet)

21 July 1987



The accompanying notes are an integral part of this balance sheet.

BUN JOHNSON AND COMPANY LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>1986</u>	<u>1985</u>
SOURCE OF FUNDS		
Profit for the financial year	£ 4,188,180	£ 4,333,458
Add (deduct) items not involving cash flow during the year		
- depreciation	764,731	749,981
- profit on disposal of fixed assets	(61,561)	(3,919)
- deferred taxation	(318,718)	200,718
	<hr/>	<hr/>
Total funds from operations	4,572,632	5,280,238
Transfer of tangible fixed assets to (from) other group companies	69,415	(34,320)
Proceeds from disposal of tangible fixed assets	92,370	22,138
	<hr/>	<hr/>
	£ 4,734,417	£ 5,268,056
	=====	=====
APPLICATION OF FUNDS		
Purchase of tangible fixed assets at cost	£ 1,244,589	£ 384,530
Loan to fellow-subsiary	-	1,540,258
Increase in net current assets, as shown below	3,480,259	3,354,575
Decrease (increase) in creditors falling due after more than one year	9,569	(11,307)
	<hr/>	<hr/>
	£ 4,734,417	£ 5,268,056
	=====	=====
INCREASE (DECREASE) IN NET CURRENT ASSETS		
Stocks	£ 1,430,003	£ (622,864)
Debtors	4,236,512	2,042,712
Creditors falling due within one year	(1,765,337)	(2,061,234)
	<hr/>	<hr/>
	3,901,178	(641,386)
Movement in net liquid funds		
- cash at bank and in hand	936,829	2,932,787
- bank loans and overdrafts	(1,357,748)	1,063,174
	<hr/>	<hr/>
	£ 3,480,259	£ 3,354,575
	=====	=====

The accompanying notes are an integral part of this statement.

BEN JOHNSON AND COMPANY LIMITED

NOTES TO ACCOUNTS -- 31 DECEMBER 1966

1. ACCOUNTING POLICIES:

The principal accounting policies are -

a. Basis of accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of certain fixed assets.

b. Tangible fixed assets

All the tangible fixed assets of the company, other than 10 acres of freehold land which were revalued in 1976, are stated at the amount at which they were revalued on 31 December 1964 plus additions at cost net less disposals subsequent to that date.

Regional development grants are deducted from the cost of additions.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of fixed assets on a straight line basis over their estimated useful lives as follows -

Freehold buildings - 3% per annum
Plant and machinery - 5% - 20% per annum

No depreciation is provided on freehold land.

The acquisition of certain plant is being financed by leases. The plant acquired has been capitalised at its cost value and is depreciated in accordance with the above rates. The future liability to the leasing companies has been shown, net of deferred interest, as a liability in the balance sheet. Interest payable to the lessors is being charged against profits at the effective rate of interest for the duration of the primary periods of the leases.

c. Stocks

Stocks are stated at the lower of average cost and net realisable value. Cost includes material, labour and an appropriate proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

d. Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided at the rate at which the liability is estimated to crystallise to the extent that the directors are of the opinion that such taxation may become payable in the foreseeable future.

e. Pension costs

It is the policy of the company to fund pension liabilities, on the advice of external actuaries, by payments to independent trusts. Payments made to the funds and charged in the accounts comprise current and past service contributions. Independent actuarial valuations on a going concern basis are carried out every 3 years.

f. Foreign currency

Transactions in foreign currencies are translated into sterling at the rate of exchange current at the date of the transaction. Foreign currency items in the year end balance sheet are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange gains and losses are included in the profit and loss account.

g. Consolidated accounts

The company had one subsidiary company at 31 December 1986. Consolidated accounts have not been prepared because consolidated accounts are prepared for the ultimate UK resident holding company, Donnelley Holdings Limited and in the opinion of the directors, consolidated accounts for Ben Johnson and Company Limited would be of no real value to the members of the company.

h. Investment

The investment in subsidiary company is stated at cost less amounts written off.

i. Turnover

Turnover comprises the value of sales, excluding VAT, of goods and services supplied in the normal course of business.

2. SEGMENT INFORMATION:

The analysis of turnover by activity and geographical market has been omitted as, in the opinion of the directors, this would be prejudicial to the business of the company.

3. OTHER OPERATING EXPENSES:

	<u>1986</u>	<u>1985</u>
Selling and marketing costs	£ 1,212,173	£ 1,040,110
Administrative expenses	3,111,240	2,947,949
	<u>£ 4,323,413</u>	<u>£ 3,988,059</u>
	=====	=====

4. INTEREST PAYABLE AND SIMILAR CHARGES:

	<u>1986</u>	<u>1985</u>
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	£ 107,305	£ 204,975
On finance leases	15,523	13,887
	<u>£ 122,838</u>	<u>£ 218,862</u>
	=====	=====

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION:

Profit on ordinary activities before taxation is stated after crediting -

	<u>1986</u>	<u>1985</u>
Profit on disposal of tangible fixed assets	£ 61,561	£ 3,919
Rent receivable (net)	900	900
	<u>=====</u>	<u>=====</u>

and after charging -

Depreciation		
- tangible fixed assets (leased)	£ 211,713	£ 231,056
- tangible fixed assets (owned)	533,018	518,925
	2,597,602	2,094,218
Hire of plant and machinery	27,500	32,000
Auditors' remuneration		
Staff costs (Note 6)	<u>15,866,844</u>	<u>12,847,828</u>
	=====	=====

6. STAFF COSTS:

Particulars of employee costs (including executive directors) are as shown below -

	<u>1986</u>	<u>1985</u>
Employee costs during the year amounted to -		
Wages and salaries	£ 14,101,293	£ 11,471,882
Social security costs	1,000,069	794,407
Other pension costs	765,482	581,539
	<u>£ 15,866,844</u>	<u>£ 12,847,828</u>

The average weekly number of persons employed by the company during the year was as follows -

Production	683	701
Sales and marketing	36	20
Administration	116	140

Directors' remuneration -

The employee costs shown above include the following remuneration in respect of directors of the company -

Remuneration for management services	£ 387,982	£ 372,851
Pension paid to former director	1,557	1,060
Other emoluments	-	29,396
Compensation for loss of office	33,450	-
	<u>£ 422,989</u>	<u>£ 403,307</u>

The directors' remuneration shown above (excluding pensions and pension contributions) included -

Chairman from 1 October 1986	£ 14,688	£ -
Highest paid director and Chairman to 1 October 1986	£ 55,151	£ 73,701

Number of other directors receiving emoluments between -

£ 0 - £ 5,000	1	2
5,001 - 10,000	1	-
10,001 - 15,000	-	1
15,001 - 20,000	-	1
20,001 - 25,000	2	-
25,001 - 30,000	-	1
30,001 - 35,000	3	-
35,001 - 40,000	2	3
40,001 - 45,000	-	1
45,001 - 50,000	-	-
50,001 - 55,000	-	-

7. TAX CREDIT (CHARGE) ON PROFIT ON ORDINARY ACTIVITIES:

The tax credit (charge) is based on the profit for the year and comprises -

	1986	1985
Deferred taxation at 35% (1985 - 35%)	£ 318,718	£ (200,718)

Current taxation of approximately £1,555,000 (1985 - £1,850,000) has been eliminated by the surrender of group relief by fellow subsidiaries free of charge.

8. TANGIBLE FIXED ASSETS:

a. The movement in the year was as follows -

	Freehold land and buildings	Plant and machinery		Total
		<u>Owned</u>	<u>Leased</u>	
COST OR VALUATION				
Beginning of year	£ 5,119,687	£ 3,793,285	£ 2,360,787	£ 11,273,759
Additions	213,040	958,657	72,892	1,244,589
Transfers to other group companies	(102,416)	(367,161)	-	(469,577)
Reclassifications	-	(12,237)	12,237	-
Disposals	(18,893)	(89,763)	-	(108,656)
End of year	5,211,418	4,282,781	2,445,916	11,940,115
DEPRECIATION				
Beginning of year	701,151	2,215,942	1,174,083	4,091,176
Charge	148,036	404,982	211,713	764,731
Transfers to other group companies	(29,101)	(371,061)	-	(400,162)
Disposals	(1,805)	(76,042)	-	(77,847)
End of year	818,281	2,173,821	1,385,796	4,377,898
Net book value, beginning of year	£ 4,418,536	£ 1,577,343	£ 1,186,704	£ 7,182,583
Net book value, end of year	£ 4,393,137	£ 2,108,960	£ 1,060,120	£ 7,562,217

Freehold land included in the above at £265,000 (1985 - £265,000) is not depreciated.

D. Basis of valuation

Plant and machinery is shown at cost. Freehold land and buildings are shown at valuation in 1964 and 1976 with subsequent additions at cost as shown below -

	<u>1986</u>	<u>1985</u>
Professionally valued		
- existing use (1964)	£ 481,000	£ 481,000
- existing use (1976)	180,000	180,000
	<hr/>	<hr/>
Total at valuation	661,000	661,000
At cost	4,550,418	4,458,687
	<hr/>	<hr/>
Cost or valuation end of year	£ 5,211,418	£ 5,119,687
	<hr/>	<hr/>

Freehold buildings included at valuation with an original cost of £111,392, are fully depreciated, based on cost, as at 31 December 1986 and 1985.

Freehold land included at valuation with an original cost of £6,250 is not depreciated.

9. FIXED ASSET INVESTMENT:

The company has a fixed asset investment which was fully written down in a prior year. The total cost of the investment was £2,000. This is represented at 31 December 1986 by underlying net assets of £7,198,767 (1985 - £4,736,904). This represents a holding of 100% of the issued ordinary share capital of Ben Johnson Trading Limited, a company incorporated in England whose principal activity is the production of alphabetical telephone directories.

10. STOCKS:

The following are included in stocks -

	<u>1986</u>	<u>1985</u>
Raw materials and consumables	£ 3,540,919	£ 3,071,253
Work in progress	2,912,798	1,961,024
Finished goods and goods for resale	148,266	139,703
	<hr/>	<hr/>
	£ 6,601,983	£ 5,171,980
	<hr/>	<hr/>

In the opinion of the directors, the estimated replacement cost of stocks does not materially exceed the book value.

11. DEBTORS:

The following are included in debtors -

	<u>1986</u>	<u>1985</u>
Amounts falling due within one year -		
Trade debtors	£ 7,199,304	£ 4,424,399
Amounts owed by fellow-subsiidiaries	2,941,416	3,008,959
Loan to fellow-subsiidiary	1,540,258	1,540,258
VAT	1,181,781	411,145
Other debtors	908,254	317,599
Prepayments and accrued income	553,639	385,780
	<u>£ 14,324,652</u>	<u>£ 10,088,140</u>

12. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR:

The following amounts are included in creditors falling due within one year -

	<u>1986</u>	<u>1985</u>
Current portion of finance lease repayments	£ 82,263	£ 70,051
Bank loans and overdrafts	2,075,192	717,444
Payments received on account	22,838	22,824
Trade creditors	3,399,355	2,544,796
Amounts owed to holding company and fellow-subsiidiaries	5,283,654	3,960,423
Other creditors	240,914	150,755
Social security and PAYE	371,304	673,749
Accruals and deferred income	792,161	1,004,554
	<u>£ 12,267,681</u>	<u>£ 9,144,596</u>

The bank loans and overdrafts are guaranteed by the ultimate United Kingdom resident parent company.

13. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:

The following amounts are included in creditors falling due after more than one year -

	<u>1986</u>	<u>1985</u>
Finance lease repayments	£ 96,179	£ 105,748

The future minimum lease payments to which the company is committed as at 31 December 1986 under finance leases are as follows -

	<u>1986</u>	<u>1985</u>
Payable	£ 200,457	£ 192,902
- one to five years	-	-
- after five years	-	-
	<u>200,457</u>	<u>192,902</u>
	<u>(22,015)</u>	<u>(17,103)</u>
Finance charges allocated to future periods	<u>£ 178,442</u>	<u>£ 175,799</u>
	=====	=====

14. PROVISION FOR LIABILITIES AND CHARGES:

Deferred taxation has been provided in full because in the opinion of the directors it will become payable in the foreseeable future.

Timing differences at 35% (1985 - 35%) are as follows -

	<u>1986</u>	<u>1985</u>
Excess of tax allowances over book depreciation of fixed assets	£ 1,303,000	£ 1,592,168
Other timing differences related to current assets and liabilities	<u>(75,000)</u>	<u>(45,450)</u>
	<u>£ 1,228,000</u>	<u>£ 1,546,718</u>
	=====	=====

15. CALLED UP SHARE CAPITAL:

Authorised -

Ordinary shares of £1 each

	<u>1986</u>	<u>1985</u>
	£ 6,157,850	£ 6,157,850
	=====	=====

Allotted, called up and fully paid -

Ordinary shares of £1 each

	<u>1986</u>	<u>1985</u>
	£ 5,157,850	£ 5,157,850
	=====	=====

16. RESERVES:

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise -

	<u>1986</u>	<u>1985</u>
Distributable	£ 15,037,735	£ 10,849,555
- profit and loss account		
Non-distributable	4,000,000	4,000,000
- capital contribution	253,379	253,379
- revaluation reserve		
	<u>£ 19,291,114</u>	<u>£ 15,102,934</u>
	=====	=====

17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

a. Capital commitments

At the end of the year, capital commitments were -

	<u>1986</u>	<u>1985</u>
Contracted	£ 161,976	£ 29,200
Authorised but not contracted	416,057	530,144
	<u>£ 578,033</u>	<u>£ 559,344</u>

b. Pensions arrangements

The company operates a defined benefit pension scheme covering the majority of full time employees. The company's contribution to the pension scheme for the year amounted to £765,482 (1985 - £581,539).

An actuarial valuation of the scheme was last carried out in April 1985, which confirmed that the scheme was fully funded at that date.

18. ULTIMATE HOLDING COMPANY:

The company's ultimate holding company is R.R. Donnelley & Sons Company which is incorporated in the State of Delaware, USA.

19. RELATED PARTY TRANSACTIONS:

Included in sales is £19,837,358 (1985 - £17,368,650) made to fellow group companies.

Included in cost of sales and operating expenses is £2,756,836 (1985 - £2,265,168) charged by fellow group companies.