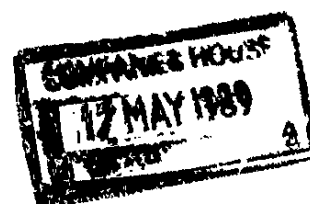


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Ben Johnson and Company Limited



**Accounts – 31 December 1988
Together with Directors' and
Auditors' Reports**

166396

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 10 April 1989 for the following purposes -

As ordinary business -

- (1) To receive and approve the Directors' Report and the Accounts for the year ended 31 December 1988.
- (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. Renton
Secretary

Boroughbridge Road,
York YO2 5SS.



16 March 1989

BEN JOHNSON AND COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1988

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 1988.

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, the distribution of telephone directories and the retailing of office equipment and supplies.

The operations of this business continued to improve during 1988 resulting in improved profits despite severe price pressures being exerted in the marketplace. Investments are planned to continue during 1989 at both Gateshead and York.

RESULTS AND DIVIDENDS:

Results are as follows -

Retained profit at 31 December 1987	£ 18,171,024
Profit for the financial year	11,369,805
Interim dividend paid	(631,837)

Retained profit at 31 December 1988	£ 28,908,992
	=====

The directors do not recommend payment of a final dividend.

DIRECTORS AND THEIR INTERESTS:

J.A. Capstick (appointed 19 January 1989)
J.W.D. Ward
J.D.Hansen (appointed 4 October 1988)
C.H. Renton
P.M. Sweet
V.J.N. Auer
J. Craft
K.B. Dallas
P.J. McQuillan

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 10 to the accounts.

The directors are of the opinion that the land and buildings, which have a net book value of £6,030,601, 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:

A handwritten signature in dark ink, appearing to read 'C.H. Renton', with a long horizontal flourish extending to the right.

C.H. Renton
Secretary

16 March 1989

To the members of BEN JOHNSON AND COMPANY LIMITED:

We have audited the accounts set out on pages 6 to 18 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared under the historical cost convention modified to include the revaluation of certain fixed assets, give a true and fair view of the state of affairs of the company at 31 December 1988 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

16 March 1989

BEN JOHNSON AND COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1988

	<u>Note</u>	<u>1988</u>	<u>1987</u>
TURNOVER	2	£89,083,776	£76,222,705
Cost of sales		(75,089,530)	(68,288,047)
GROSS PROFIT		13,994,246	7,934,658
Other operating expenses	3	(5,342,643)	(4,691,333)
OPERATING PROFIT		8,651,603	3,243,325
Interest receivable and similar income		1,539,309	1,631,278
Interest payable and similar charges	4	(1,127,883)	(87,314)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	9,063,029	4,787,289
Tax on profit on ordinary activities	7	(1,211,000)	(1,654,000)
PROFIT BEFORE EXTRAORDINARY ITEMS		7,852,029	3,133,289
Extraordinary items	8	3,517,776	-
PROFIT FOR THE FINANCIAL YEAR		11,369,805	3,133,289
Dividend paid	9	(631,837)	-
RETAINED PROFIT FOR THE YEAR		10,737,968	3,133,289
RETAINED PROFIT, at 31 December 1987		18,171,024	15,037,735
RETAINED PROFIT, at 31 December 1988		£28,908,992	£18,171,024

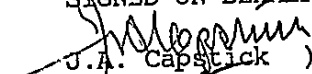
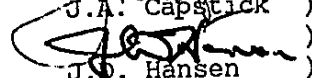
The accompanying notes are an integral part of this profit and loss account.

BEN JOHNSON AND COMPANY LIMITED

BALANCE SHEET -- 31 DECEMBER 1988

	<u>Note</u>	<u>1988</u>	<u>1987</u>
FIXED ASSETS			
Tangible assets	10	£14,487,791 -----	£ 8,428,947 -----
CURRENT ASSETS			
Stocks	12	7,485,964	7,379,070
Debtors	13	22,327,201	17,886,665
Cash at bank and in hand		9,660,119 -----	9,983,759 -----
		39,473,284	35,249,494
CREDITORS: Amounts falling due within one year	14	(13,727,332) -----	(14,726,196) -----
NET CURRENT ASSETS		25,745,952 -----	20,523,298 -----
TOTAL ASSETS LESS CURRENT LIABILITIES		40,233,743	28,952,245
CREDITORS: Amounts falling due after more than one year	15	(424,522)	(141,992)
PROVISION FOR LIABILITIES AND CHARGES	16	(1,489,000) -----	(1,228,000) -----
NET ASSETS		£38,320,221 =====	£27,582,253 =====
CAPITAL AND RESERVES			
Called up share capital	17	£ 5,157,850	£ 5,157,850
Revaluation reserve	18	253,379	253,379
Capital contribution	18	4,000,000	4,000,000
Profit and loss account	18	28,908,992 -----	18,171,024 -----
TOTAL CAPITAL EMPLOYED		£38,320,221 =====	£27,582,253 =====

SIGNED ON BEHALF OF THE BOARD:

 J.A. Capstick)
 J.D. Hansen) Directors

16 March 1989

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

BEN JOHNSON AND COMPANY LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1988

	<u>1988</u>	<u>1987</u>
SOURCE OF FUNDS		
Profit for the financial year	£11,369,805	£3,133,289
add (deduct) items not involving cash flow:		
- Depreciation charge for the year	1,265,283	931,160
- Net profits on disposal of tangible fixed assets	-	(3,283)
- Increase in provision for liabilities and charges	261,000	-
	-----	-----
FUNDS FROM OPERATIONS	12,896,088	4,061,166
Proceeds from disposal of tangible fixed assets	-	253,393
Transfer of fixed assets to other group companies	-	62,647
Increase in creditors falling due after one year	282,530	45,813
	-----	-----
TOTAL SOURCE OF FUNDS	13,178,618	4,423,019
APPLICATION OF FUNDS		
Purchase of fixed assets at cost	(7,324,127)	(2,110,647)
Dividends paid	(631,837)	-
	-----	-----
TOTAL SURPLUS OF FUNDS	£ 5,222,654	£ 2,312,372
	=====	=====
REPRESENTED BY INCREASE IN NET CURRENT ASSETS		
Stocks	£ 106,894	£ 777,087
Debtors	4,440,536	3,562,013
Creditors falling due within one year:		
- UK Corporation tax payable	(425,000)	(1,654,000)
- Others	1,384,576	(2,840,419)
	-----	-----
	5,507,006	(155,319)
Movement in net liquid funds		
- Cash at bank and in hand	(323,640)	431,787
- Bank loans and overdrafts	39,288	2,035,904
	-----	-----
	£ 5,222,654	£ 2,312,372
	=====	=====

The accompanying notes are an integral part of this statement.

BEN JOHNSON AND COMPANY LIMITED

NOTES TO ACCOUNTS -- 31 DECEMBER 1988

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 and 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 1988. 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.

3. OTHER OPERATING EXPENSES:

	<u>1988</u>	<u>1987</u>
Selling and marketing costs	£ 1,256,197	£ 1,008,645
Administrative expenses	4,086,446	3,682,688
	-----	-----
	£ 5,342,643	£ 4,691,333
	=====	=====

4. INTEREST PAYABLE AND SIMILAR CHARGES:

	<u>1988</u>	<u>1987</u>
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	£ 976,203	£ 38,862
On finance leases	48,574	13,297
	-----	-----
	1,024,777	52,159
Discount allowed	103,106	35,155
	-----	-----
	£ 1,127,883	£ 87,314
	=====	=====

Discounts allowed were previously classified within cost of sales. It is now more appropriate that they should be reclassified as a finance cost. Prior year comparatives have been restated.

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION:

Profit on ordinary activities before taxation is stated after crediting -

	<u>1988</u>	<u>1987</u>
Profit on disposal of tangible fixed assets	£ -	£ 3,283
Rent receivable (net)	900	900
	=====	=====

and after charging -

Depreciation		
- tangible fixed assets (leased)	£ 312,325	£ 372,012
- tangible fixed assets (owned)	952,958	559,148
Hire of plant and machinery	2,577,144	2,689,514
Auditors' remuneration	36,000	32,500
Staff costs (Note 6)	19,839,889	16,417,675
	=====	=====

6. STAFF COSTS:

Particulars of employees (including executive directors) are as shown below:-

	<u>1988</u>	<u>1987</u>
Employee costs during the year amounted to:-		
Wages and salaries	£17,578,857	£14,409,542
Social security costs	1,287,045	1,127,396
Other pension costs	973,987	880,737
	-----	-----
	£19,839,889	£16,417,675
	=====	=====

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

Production	771	706
Sales and marketing	42	38
Administration	110	109
	=====	=====

Directors' remuneration:-

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

Remuneration for management services	£ 569,400	£ 457,333
Pension paid to former director	2,139	1,840
	-----	-----
	£ 571,539	£ 459,173
	=====	=====

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

Chairman (1987 - Chairman and highest paid director)	£ 66,196	£ 73,655
	=====	=====
Highest paid director	£ 107,777	£ -
	=====	=====

Other directors and higher paid employees received emoluments between:-

	<u>Directors</u>		<u>Employees</u>	
	<u>1988</u>	<u>1987</u>	<u>1988</u>	<u>1987</u>
£ 0 - £ 5,000	1	2		
30,001 - 35,000	-	-	22	-
35,001 - 40,000	-	-	4	-
40,001 - 45,000	-	3	1	-
45,001 - 50,000	-	2	1	-
50,001 - 55,000	1	1	-	-
55,001 - 60,000	2	1	-	-
65,001 - 70,000	1	-	-	-
70,001 - 75,000	1	-	-	-

7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES:

The tax charge is based on the profit for the year and comprises:-

	<u>1988</u>	<u>1987</u>
Corporation tax at 35%	£ 950,000	£ 1,654,000
Deterred taxation	261,000	48,000
Adjustment of deferred taxation in respect of prior years	-	(48,000)
	-----	-----
	£ 1,211,000	£ 1,654,000
	=====	=====

Current taxation of approximately £2,011,000 (1987 - £Nil) has been eliminated by the surrender of group relief by fellow subsidiaries free of charge.

8. EXTRACORDINARY ITEMS

Extraordinary items comprise:-

	<u>1988</u>	<u>1987</u>
Dividend received following transfer of trade from subsidiary company	£10,538,000	£ -
Provision against amount due from fellow subsidiary company	(7,020,224)	-
	-----	-----
	£ 3,517,776	£ -
	=====	=====

9. DIVIDEND PAID

Interim on 2 November 1988 of 12.25p per share	£ 631,837	£ -
	=====	=====

10. TANGIBLE FIXED ASSETS:

a. The movement in the year was as follows -

	<u>Freehold land and buildings</u>	<u>Plant and machinery Owned</u>	<u>Leased</u>	<u>Total</u>
COST OR VALUATION				
Beginning of year	£ 5,321,678	£ 5,745,966	£ 2,480,270	£13,547,914
Additions	1,855,434	4,815,629	653,064	7,324,127
Reclassifications	-	5,398	(5,398)	-
	-----	-----	-----	-----
End of year	7,177,112	10,566,993	3,127,936	20,872,041
	-----	-----	-----	-----
DEPRECIATION				
Beginning of year	977,066	2,384,093	1,757,808	5,118,967
Charge	169,445	783,513	312,325	1,265,283
	-----	-----	-----	-----
End of year	1,146,511	3,167,606	2,070,133	6,384,250
	-----	-----	-----	-----
Net book value, beginning of year	£ 4,344,612	£ 3,361,873	£ 722,462	£ 8,428,947
	=====	=====	=====	=====
Net book value, end of year	£ 6,030,601	£ 7,399,387	£ 1,057,803	£14,487,791
	=====	=====	=====	=====

Freehold land included in the above at £265,000 (1987 - £265,000) is not depreciated.

b. 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>1988</u>	<u>1987</u>
Professionally valued		
- existing use (1964)	£ 481,000	£ 481,000
- existing use (1976)	180,000	180,000
	-----	-----
Total at valuation	661,000	661,000
At cost	6,516,112	4,660,678
	-----	-----
Cost or valuation end of year	£ 7,177,112	£ 5,321,678
	=====	=====

Freehold buildings included at valuation with an original cost of £111,392, are fully depreciated, based on cost, as at 31 December 1988 and 1987.

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

11. 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 1988 by underlying net assets of £2,902 (1987 - £9,955,213). 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 was the production of alphabetical telephone directories. On 1 January 1988, trading activities were transferred to Ben Johnson and Company Limited.

12. STOCKS:

The following are included in stocks -

	<u>1988</u>	<u>1987</u>
Raw materials and consumables	£ 3,708,098	£ 4,327,162
Work in progress	3,495,131	2,865,940
Finished goods and goods for resale	282,735	185,968
	-----	-----
	£ 7,485,964	£ 7,379,070
	=====	=====

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

13. DEBTORS:

The following are included in debtors:-

	<u>1988</u>	<u>1987</u>
Amounts falling due within one year:-		
Trade debtors	£11,787,191	£8,278,750
Amounts owed by holding company and fellow-subsiidiaries	7,215,299	6,155,880
Loan to fellow-subsiidiary	1,540,258	1,540,258
VAT	747,287	1,355,980
Other debtors	475,191	150,775
Prepayments, accrued income and other assets	561,975	405,019
	-----	-----
	£22,327,201	£17,886,665
	=====	=====

14. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR:

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

	<u>1988</u>	<u>1987</u>
Obligations under finance leases	£ 146,316	£ 56,320
Current portion of equipment loan repayments	102,133	132,449
Bank loans and overdrafts	-	39,288
Payments received on account	10,553	10,769
Trade creditors	8,158,293	3,090,947
Amounts owed to holding company and fellow-subsiidiaries	29,254	7,460,116
Other creditors	444,268	468,658
UK corporation tax payable	2,079,000	1,645,000
Social security and PAYE	530,709	423,239
Accruals and deferred income	2,226,806	1,390,410
	-----	-----
	£13,727,332	£14,726,196
	=====	=====

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

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

	<u>1988</u>	<u>1987</u>
Obligations under finance leases	£ 424,522	£ 39,859
Equipment loan repayments	-	102,133
	-----	-----
	£ 424,522	£ 141,992
	=====	=====

The future minimum lease payments to which the company is committed are as follows:-

	<u>1988</u>	<u>1987</u>
Within one year	£ 189,596	£ 63,019
Within two and five years	474,984	42,671
	-----	-----
	664,580	105,690
Finance charges allocated to future periods	(93,742)	(9,511)
	-----	-----
	£ 570,838	£ 96,179
	=====	=====

16. 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% are as follows:-

	<u>1988</u>	<u>1987</u>
Excess of tax allowances over book depreciation of fixed assets	£ 1,581,000	£ 1,324,000
Other timing differences related to current assets and liabilities	(92,000)	(96,000)
	-----	-----
	£ 1,489,000	£ 1,228,000
	=====	=====

17. CALLED UP SHARE CAPITAL:

Authorised:-

	<u>1988</u>	<u>1987</u>
Ordinary shares of £1 each	£ 6,157,850	£ 6,157,850
	=====	=====

Allotted, called up and fully paid:-

	<u>1988</u>	<u>1987</u>
Ordinary shares of £1 each	£ 5,157,850	£ 5,157,850
	=====	=====

18. RESERVES:

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

	<u>1988</u>	<u>1987</u>
Distributable		
- profit and loss account	£28,908,992	£18,171,024
Non-distributable		
- capital contribution	4,000,000	4,000,000
- revaluation reserve	253,379	253,379
	-----	-----
	£33,162,371	£22,424,403
	=====	=====

19. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

a. Capital commitments

At the end of the year, capital commitments were -

	<u>1988</u>	<u>1987</u>
Contracted but not provided for	£ 2,189,149	£ 834,565
Authorised but not contracted for	6,313,955	164,193
	-----	-----
	£ 8,503,104	£ 998,758
	=====	=====

b. Pension 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 £973,987 (1987 - £880,737).

The last triennial actuarial valuation of the scheme as at 1 April 1988 confirmed that the scheme was fully funded at that date.

20. ULTIMATE HOLDING COMPANY:

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

21. RELATED PARTY TRANSACTIONS:

Included in sales is £868,066 (1987 - £22,224,240) made to fellow group companies.

Included in cost of sales and operating expenses is £461,435 (1987 - £2,857,656) charged by fellow group companies.

Included in interest payable and similar charges is £896,843 (1987 - £nil) charged by fellow group companies.