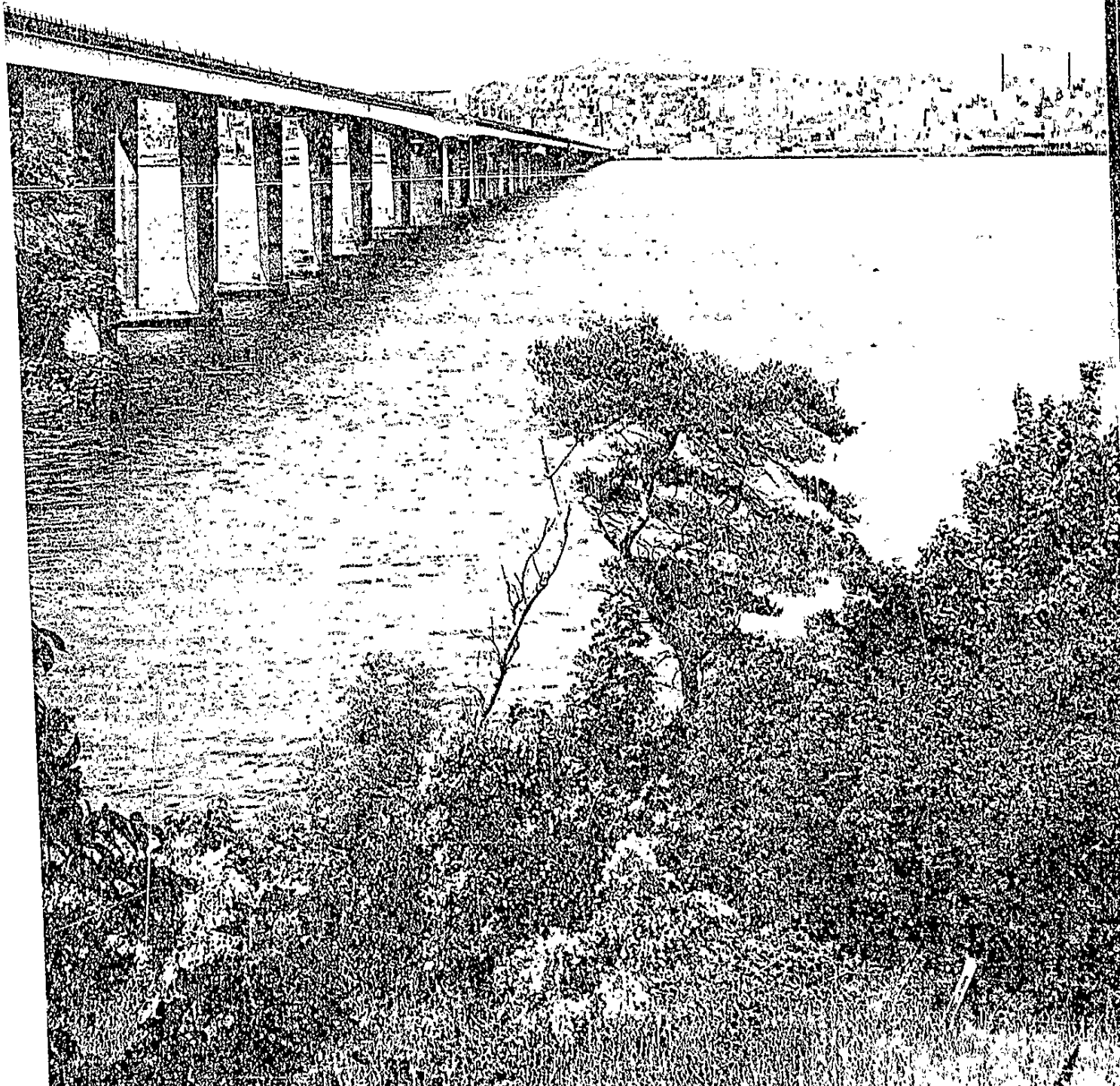


Alliance Trust  
1988



# THE ALLIANCE TRUST PLC

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**Registered  
Office**

Meadow House, 64 Reform Street, Dundee DD1 1TJ, Telephone 0382 201700

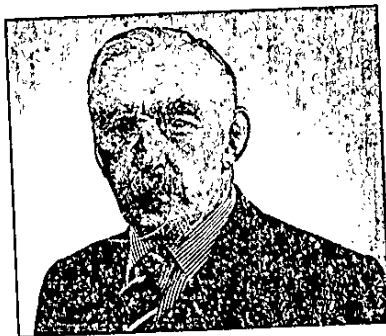
**Registrars**

The Royal Bank of Scotland plc, PO Box 27, 34 Fettes Row, Edinburgh EH3 6UT, Telephone 031-442 4111

**C.R.O. EDINBURGH**

**- 5 MAY 1988**

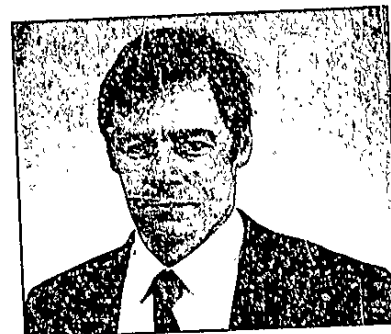
## Directors



**Sir Robert Smith, CBE, MA, LLD, CA, Chairman (60).** A director of several companies including the Bank of Scotland, William Collins, Edinburgh Investment Trust, Sidlaw Group and the Standard Life Assurance Company.



**Lyndon Bolton, Managing Director (51).** A director of the TSB Group and the General Accident, Fire and Life Assurance Corporation.



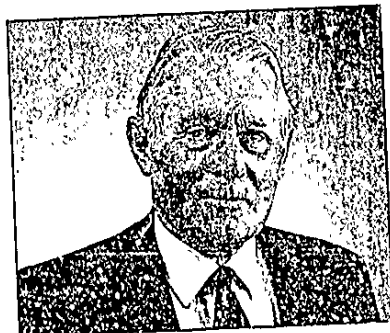
**Gavin R Suggett, MA, MSc, FCA, Company Secretary (43).** Managing Director of Alliance Trust (Finance) Limited.



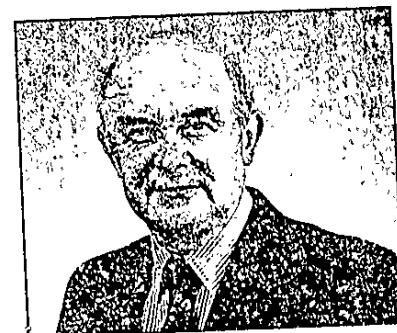
**Brian H Thomson (non-executive) (69).** Chairman and joint managing director of D C Thomson & Co and a director of a number of other companies.



**Christopher Blake, MA, PhD, (non-executive) (61).** Honorary Professor of Applied Economics at Dundee University. Chairman of William Low & Co and of Glenrothes Development Corporation.



**Douglas F Hardie, CBE, (non-executive) (64).** Deputy Chairman of the Scottish Development Agency, and a director of other companies including the Clydesdale Bank and Grampian Television.



**George A Stout, MA, ACIS, (non-executive) (60).** A director of Fleming Claverhouse Investment Trust and Advent Technology.

\* Member of the Audit Committee

# Profile of The Alliance Trust

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## Profile of The Alliance Trust

### The Company

Founded in 1888 the Alliance has grown into one of the largest investment trusts in the UK, with assets of £518 million. This growth has been achieved by the successful management of stockholders' funds and the retention of capital gains and not by acquisition or merger. The operations are conducted from Dundee.

### Management

To ensure continuity and the maximum benefits from professional management, the Company has always employed its own management team whose task is to seek out investment opportunities, administer and implement the policies of the Board. The directors meet with the managers each week to form and monitor that policy.

### Objectives

Investment policy is aimed at producing a steady growth of both income and capital.

### Portfolio

The bulk of the portfolio is invested on a long-term basis in top quality commercial, financial and industrial concerns spread throughout the major economies with an emphasis on North America where the Company has a long-standing expertise. In the main these investments are marketable and changes in investment policy are achieved by moderate movements of funds from one investment to another.

### Stockholders

The major proportion of the Company's stock is held for the benefit of individuals directly, often in trusts or in the names of nominees. A large proportion of the stock is transferred by gift or inheritance and there is still a distinct Scottish bias.

## Attractions to the Private Stockholder

### Investment

The Alliance provides a good vehicle for obtaining the necessary investment diversification to reduce overall risk, as well as providing the stockholders with all the advantages of professional management. Virtually all income is distributed as dividends and it is usually possible to buy stock at a discount to the value of the underlying assets.

### Taxation

The Company pays no tax on capital gains, allowing the build up of a tax free capital fund and the management to follow investment policies free from the distortions of capital taxation. On the income side the Company is able to offset both expenses and interest against investment income for taxation purposes.

### Cost

The Company structure provides efficient cost management and with no promotion costs the management charges amount to less than 0.2% of total assets. Low transaction costs, freedom from capital gains tax, the ability to borrow and the company structure all enhance the ability of the managers to execute a flexible investment policy.

## Special Features

### Mineral Rights

The company owns numerous individual oil and gas properties in the USA which although shown at nominal value in the Balance Sheet are income producing.

### Leasing and Deposit Taking

Alliance Trust (Finance) Limited, the Company's leasing subsidiary, finances and purchases plant, vehicles and equipment for both the public and private sectors in the UK. The company is an authorised institution under the 1987 Banking Act and accepts deposits from the public at attractive rates of interest.

### Personal Equity Plan and Savings Schemes

AT Savings Limited, a member of The Alliance Trust group of companies, manages Personal Equity Plans and a Dividend and Savings Investment Scheme.

# Chairman's Statement

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## Earnings

As had been anticipated in a period when the major industrialised countries had largely succeeded in bringing inflation under control, and as indicated in the interim report, our rate of growth in income has slowed from the abnormal increases of recent years with earnings for the year rising by 8%. This was affected by the adverse influence of the dollar's fall over the year on our otherwise substantially increased US dividends.

## Dividend

The recommended final dividend of 19.5p as against 17.5p last year will give, together with the already increased interim dividend, a total for the year of 27.5p, an increase of 10%. In the last five years dividends will have increased by an average of 17.5% per annum.

## Capital

After seven years of uninterrupted growth in net asset value, the events of October 1987 have resulted in a decline over the year to 31st January of 10.2%. Adjusting for the effect of the weak dollar, this fall is approximately in line with the markets in which our portfolio is invested.

Since the date of the interim report on 31st July 1987 however, we have done relatively better. As indicated then we were becoming concerned that equity values were excessive and, on this account, continued to hold substantial liquidity. This proved wise policy and was supported by the superior performance of holdings whose defensive qualities have also proved themselves over an exceptionally difficult period.

The euphoria which pervaded international stock markets in recent years has evaporated with a vengeance. It persisted against a background of those deepening problems to which I have referred in the past and which, now seen in stark reality, are still far from resolution. Convincing action to correct the US budget deficit is yet to be taken and although the trade deficit should improve the process will be lengthy. The rate of economic growth and corporate profitability is slowing and the outlook has deteriorated as the prospect of some downturn, short of severe recession, is evident. Meanwhile morale in the financial sector as a whole is low as banks struggle to adjust their balance sheets to reflect the poor quality of much of the lending of recent years and as the securities industry contracts.

However, at the new lower levels of stock market valuation, the risk of further dramatic weakness is at least reduced and we remain confident in our long held belief that the advantages of a flexible international spread of risk concentrated on holdings in companies of high quality will prove as rewarding in the future as they have in the past. In the present volatile conditions we shall continue to concentrate on the long term requirement to give stockholders a steady growth in income and capital.

## Stockholders

We have seen an excellent response from existing and new stockholders to our Personal Equity Plan Scheme and our Dividend and Savings Investment Scheme. The number of stockholders overall has increased by a further 7% to 15,465 and it is encouraging to note that interest has continued in spite of and perhaps indeed because of the market fall, recognising the benefit of a widely diversified, sound portfolio underlying the capital of the Company.

## Management

Mr George Stout retired as a manager on 9th November 1987. He has remained on the Board but does not seek re-election as a director at the annual general meeting. By then he will have served the Alliance Trust for a total of 37 years. He was appointed a manager in 1972 and a director in 1978 and has contributed greatly to the success of the Company. He has been a senior figure in the investment trust world for many years and my colleagues and I wish him a long and vigorous retirement.

Mr Lyndon Bolton, who has been a joint manager of the Company with Mr George Stout from 1976, was appointed Managing Director on 9th November and Mr Gavin Suggett, who is the secretary of the Company and Managing Director of Alliance Trust (Finance) Limited, joined the Board on that date.

The staff working under them, increased in number and maintained in quality to match the changing demands of our investment and financial activities, have accepted with great forbearance the extensive refurbishment of our Reform Street building which has had to go on around them. This has increased management expenses by £100,000 in the current year and the benefits in working efficiencies and improved standards of amenity are already evident.

## Centenary

On this one hundredth anniversary of the Company's formation a short history of the Alliance Trust has been written by Mr George Stout, whose talents and interest lent themselves so readily to the task, and copies of this fascinating record of the Company's development are being sent to all our stockholders.

The centenary annual general meeting will be held on Friday, 15th April, in the Stakis Earl Grey Hotel in Dundee where I look forward to the pleasure of welcoming many of our stockholders, including the most recent and those who are in direct descent from the original contributors to the Company.

We embark on our second one hundred years, which recent events suggest may be quite as adventurous and as testing as the first, committed to the philosophies of independence of mind, consistency of style and integrity which we believe have our stockholders' respect and which have stood them in good stead over so many years.

Robert C Smith

11th March 1988

## Financial Highlights

FOR THE YEAR TO 31ST JANUARY 1988

	1988	1987
<b>Financial Highlights</b>		
<b>Income</b>		
Gross Revenue	£21.7 million	£20.4 million
Earnings per ordinary stock unit	27.85p	25.79p
Dividend per ordinary stock unit	27.50p	25.00p
<b>Capital</b>		
Total assets less current liabilities	£518.2 million	£576.4 million
Net asset value per ordinary stock unit	1,020.6p	1,135.9p
<b>Distribution</b>		
Proportion of total assets overseas	48.7%	63.5%



L to R: (Standing) RN Thomson (Computer Manager), M Strachan (Assistant Portfolio Manager),  
(Seated) WG Lindsay (Manager), GR Suggell (Company Secretary), L Bolton (Managing Director),  
AMW Young (Manager) and R Hadden (Manager).

## Management Review

### Summary Investment Changes £'000

	UK Equities	US Equities	Other Equities	Fixed Interest	Total
Valuation at 31/1/87	209,625	226,843	56,189	44,468	537,125
Purchases	47,586	26,868	34,954	1	109,409
Sales	(16,116)	(34,677)	(37,367)	(31,412)	(119,572)
Appreciation/(Depreciation)	1,873	(42,838)	(8,645)	(6,180)	(55,790)
Valuation at 31/1/88	242,968	176,196	45,131	6,877	471,172

The table of investment changes shows that we have had an active year but does not fully reveal the violent swings in stock markets that took place. It does however show the adverse effect of the 15% decline in the dollar. We disposed of our US bonds in the spring and part of the proceeds, together with modest net sales of US equities, were reinvested in the UK equity market. Our Japanese proportion was reduced and partly reinvested elsewhere in the Pacific Basin. It is satisfactory that we have been able to reinvest on yields at least as high as those on the disposals.

### United Kingdom

Over the 12 months under review the UK equity market rose by a mere 1.4%, its rise of one-third during our first half having been all but eliminated by October's sharp fall.

Early in 1987 the UK suddenly appeared to stand out as having one of the highest rates of growth in the world and to be attractive to foreign investors, notably the Japanese. The early election and the removal of political uncertainty added to the optimism. A new era for Britain was thought finally to have arrived. The warning given by the increase in interest rates in August that the economy was beginning to overheat was

not taken sufficiently seriously by the market which was discounting several more years of very strong real dividend growth and had abandoned traditional relationships with, for example, the yield on gilts.

October's harsh return to the conventional yardsticks for assessing value in the UK market was soon accompanied by a return to doubt about whether the UK economy could remain immune from the anxieties over the level of growth in the US and Continental Europe, the level of the US dollar and the freedom of world trade. Much of the superior growth in the UK economy in 1987 resulted from earlier weakness in sterling; overheating may rekindle industrial unrest, the scope for productivity gains is more limited and the balance of payments outlook is poorer than for several years.

Although we committed some more money to UK equities from time to time during the year, our approach to stock selection remained cautious and consistent with the bias of our existing portfolio. We chose to avoid, for example, fashionable stocks on unsustainably high ratings, those reliant solely upon takeovers for their growth or those heavily dependent on areas of the economy which were overheating, but we chose instead to concentrate on traditional criteria such as yield, asset backing, strength of position in the market for their products and on those sectors more resistant to recession. We rebuilt our weighting in the food retail sector through the purchase of Tesco and Argyll and also by adding significantly to our holding in ASDA. We increased our exposure to British Gas and, following the improved provisioning for third world debt, in Barclays Bank. We added Granada to the portfolio and increased our holdings in Thorn, Scottish & Newcastle Breweries, Allied-Lyons, GUS and Reckitt & Colman.

Company staff in the refurbished offices in Dundee.

Reception



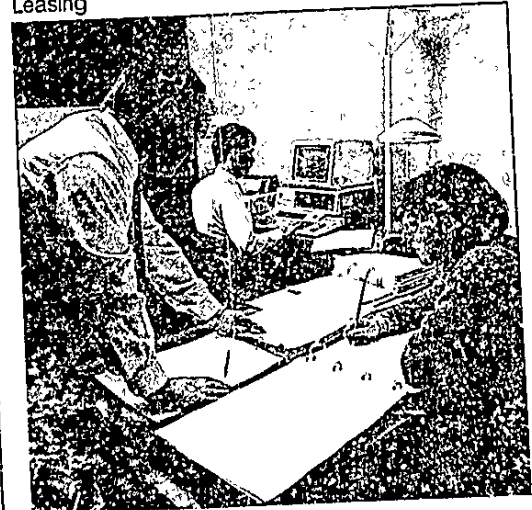
Investment



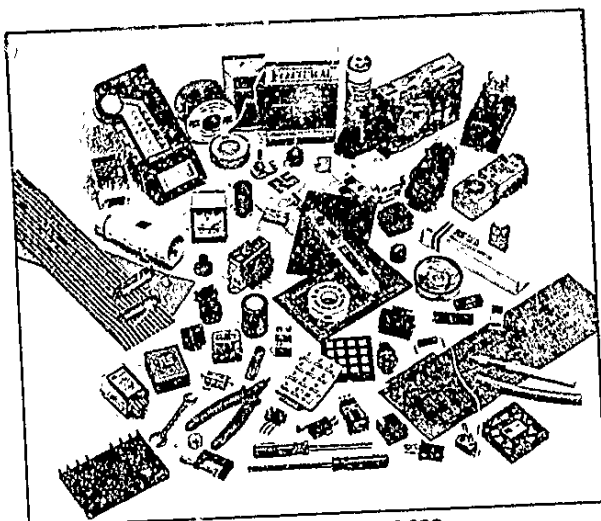
Computer



Leasing



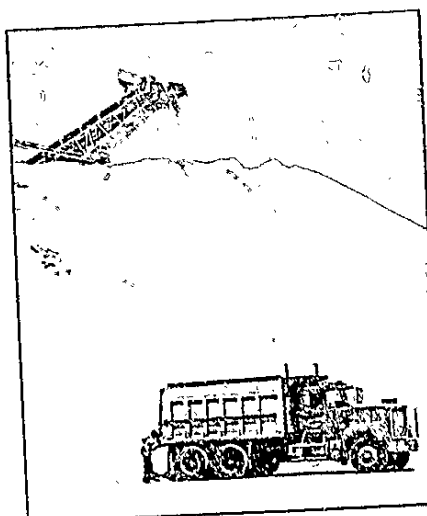




**Electrocomponents PLC. Investment £3,212,000**

*Components display*

The largest distributor of electric, electronic and related products in the UK. Overseas operations are conducted in the USA and West Germany.



**Redland PLC. Investment £1,613,000**

*Crushed limestone at Texan quarry.*

An international company providing materials and services to the construction industry. Based in the UK with significant businesses in North America, Europe and Australia.

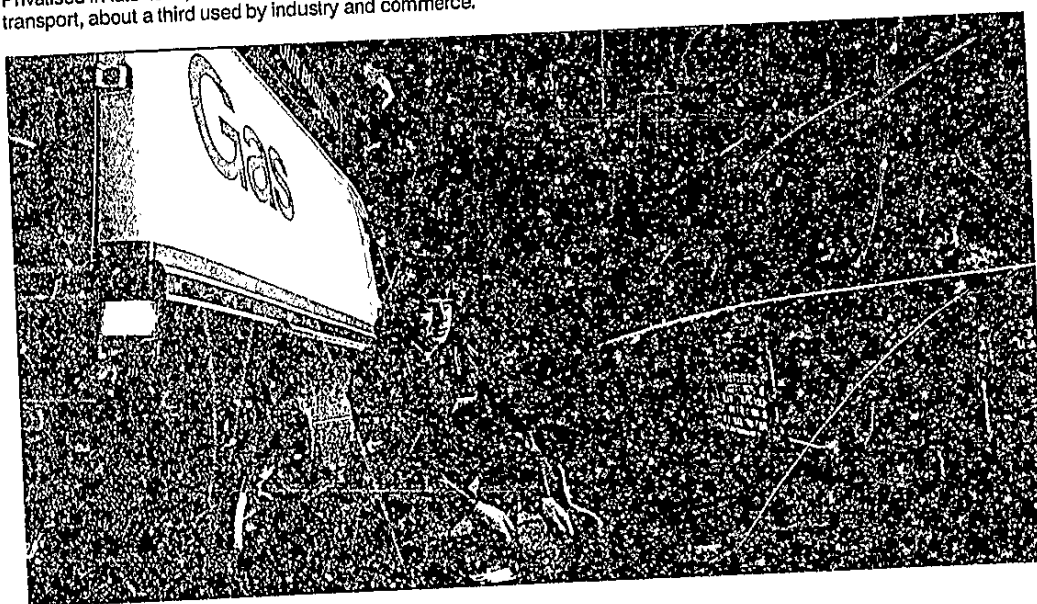
Six of our holdings were the subject of completed takeover bids during the year and we also took advantage of some unsuccessful bids, such as for Storehouse, to sell parts of our holdings. Early in the year we took profits on some of our holdings in the investment trust sector but towards the end of the year we increased our exposure once more as discounts had widened out to attractive levels and the sector appeared to offer good value.

Some of the risks to the UK market are better discounted now than they were, companies' balance sheets are strong and it is still possible to see some growth ahead, albeit at much more modest levels. Much depends on inflation remaining under control and the equity market is once more in the position of taking much of its lead from the behaviour of gilts. The emergency cuts in interest rates following the market fall have since been partly reversed; that process could go further if too much demand remains in the economy, while the likelihood of recession will not be apparent for at least another six months. Our approach will therefore remain cautious.

**British Gas PLC. Investment £2,363,000**

*An engineer testing for possible gas leak.*

Privatised in late 1986, the company supplies more than half the energy used in British homes and, apart from fuel for transport, about a third used by industry and commerce.



## United States

The US economy continued to grow at a robust rate during 1987 with inflation only rising marginally. Hourly wage rates fell in real terms, whilst productivity rose substantially in the manufacturing sector. Employment grew 2.5% (about 2.2m jobs) during the year, a cumulative increase of 13.6% (10.8m jobs) since the recession of 1982. Despite all this, 1987 will be remembered as the year when the stock market experienced its greatest one day decline this century.

During the first half of the year the S & P Composite index rose by 23%, but gave it all back during the second half to end with a 6% decline. Over the year our portfolio outperformed that index by 2½% which was particularly encouraging on top of the strong relative performance during the previous two years.



Raychem Corp. Investment £1,323,000

Insulation caps to protect telephone terminals from damp.

A leading US manufacturer of heat-shrinkable polymers and insulation products.

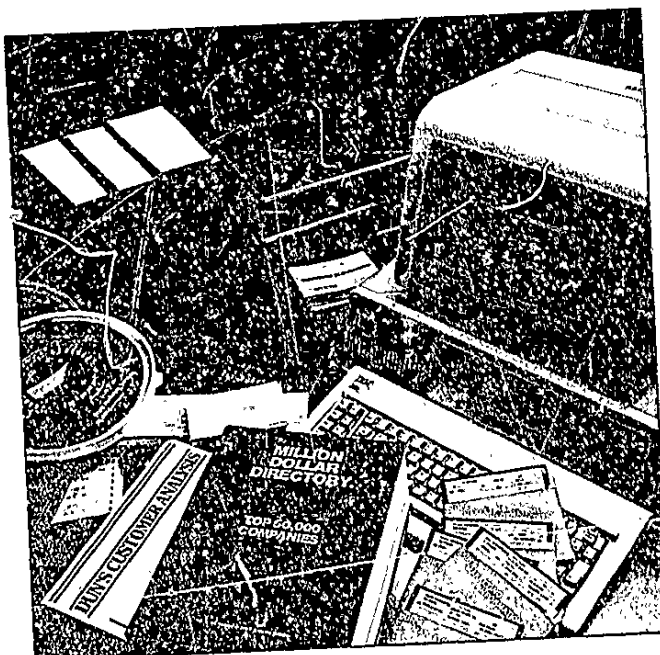
Despite the market fall some of our larger holdings, with a total value of £29m, recorded good gains including Farmers Group (+31%), Wal-Mart (+13%), Merck (+10%), Humana (+9%), PepsiCo (+8%) and Johnson & Johnson (+4%). The bond portfolio was sold in May 1987 when the stock market was recording exceptional growth and over the year we sold £8m net of US equities.

Due to concern over the outlook for consumer expenditure we substantially reduced and diversified our exposure to the retail sector by selling over half our large Wal-Mart holding, which has been an excellent investment over the years, and disposing of Zayre Corp, realising £9.7m. Of that sum, £4.3m was reinvested in new holdings in Woolworth, Casey's General Stores, Toys 'R' Us and Rent-A-Center which was subsequently acquired by Thorn EMI. We also took advantage of the excellent price performance of the drug stocks to realise £7.6m primarily through sales of Merck, but also Abbott Laboratories, Johnson & Johnson and Pfizer.

We continued to add to our underweight position in the oil and oil service industries, with particular emphasis on companies exposed to domestic gas reserves and which should benefit from a more balanced supply situation. New names include Anadarko, Chevron, Unocal and Baker Hughes. Following several years of underperformance the regional banks were thought to provide particularly good value and additions were made to Banc One, State Street Boston and SunTrust. The reindustrialisation of America will continue to provide attractive investment opportunities and with that in mind we purchased some Emerson Electric, Fort Howard, WW Grainger, Illinois Tool Works, Nalco Chemical and Sealed Air.

With the consumer and financial sectors contracting it is difficult to see how the US economy can avoid at best a mild recession if not in 1988 then in 1989 especially since a new President, irrespective of political party, may use the honeymoon period to tackle some of the serious US structural problems. The lower value of the US dollar and improved efficiency through the rationalisation of US manufacturing is certainly resulting in buoyant industrial demand and increased profits primarily from higher exports. However, personal consumption represents 67% of GNP whilst exports and capital investment combined account for only 25%.

With the market 24% off its high, some value is emerging and the recent overseas bids by BAT Industries for Farmers Group, Hoffman La Roche for Sterling Drug and Sony for The CBS Record Division could be said to demonstrate that view.



Dun & Bradstreet Corp.  
Investment £7,743,000

Information on six million US businesses  
supplied by a subsidiary.

Has a dominant position in the US in a  
unique combination of proprietary  
database, publishing and information  
activities. Owns Datastream in the UK.

## Far East

Least affected of the major markets during the crash the Tokyo Index managed to show an improvement of 9½% for the year as a whole. The currency firmed marginally against sterling but showed dramatic strength against the dollar, appreciating by 20%.

Despite a rapidly appreciating currency real GNP rose by nearly 4% due to domestic investment and consumption, and the stimulative effects of continuing deregulation. Liquidity remained high and interest rates low despite the pick up in the economy, but their effects on the stock market were not so pronounced as in 1986. Interesting trends to emerge during the year were the relative decline in large capitalisation issues and the return to favour of smaller companies. Foreigners continued to sell heavily and by the year end represented only 3.5% of the total market, the lowest level since 1979.

Dai Nippon Printing Co Ltd. Investment £1,150,000

Visual checking of a print run.

Based in Tokyo and is the world's largest comprehensive printing company with significant interests in electronic components.





Dairy Farm International Holdings Ltd. Investment £817,000

*Fresh produce counter at a Hong Kong supermarket.*

Formerly part of the Jardine Matheson Group, the company is a food retailer, manufacturer and wholesaler with operations in Hong Kong, Australia, China and Taiwan. Recently acquired 25% stake in UK retailer, Kwik Save.

As anticipated in last year's report we further reduced our Japanese proportion, realising some £22m. Our low exposure reflects the view that valuations and in particular returns by way of yield are just too extreme notwithstanding the strengths that the Japanese systems and markets have shown in these turbulent times. We sold Nomura Securities, real estate stocks and selected exporters such as NEC and Fuji Photo Film. Notable additions included the store chain Marui, the drug company Tanabe, Dai Nippon Printing and the largest quoted travel agency, Kinki Nippon Tourist.

Elsewhere in the Pacific Basin we added to positions in Australia and Hong Kong restricting our exposure to blue chip issues. Holdings added included Pacific Dunlop and TNT in Australia and Dairy Farm and Swire Pacific in Hong Kong. Both of the markets were amongst the best performing in the world before the crash and since have been amongst the worst. However, as our investment criteria remain to hold top quality companies for the longer term we will use any weakness in investment sentiment to add to our existing holdings.

## Europe

Major European markets have fared equally poorly following several years of strong performances. The larger markets of France, Germany and Italy in particular not only took full part in the fall in October but had failed to enjoy much of the excitement earlier in the year. The dollar's decline upset the outlook for growth and many of the countries still have political uncertainty to face. We very modestly increased our exposure to Europe through buying defensive stocks such as BSN and St Gobain in France and some smaller stocks in Germany and for the first time in Spain. In general our performance proved satisfactory.

## Finance Banking and Savings Scheme

Alliance Trust (Finance) Limited accepts deposits from the public and finances vehicles, plant and equipment for both public and private sectors. The rise in the 1988 reported profits of 20% to £2.2m largely reflects the profitability of long term leasing contracts set up in previous years when interest rates were higher; the effects of this year's new business will flow through to profits in future years. Although new business volumes were lower this year as a result of reduced demand from local authorities the overall portfolio increased by £1m to £32m and an independent valuation of the Company at the year end showed a 9½% increase over the last two years.

The Savings and PEP Schemes are managed by AT Savings Limited, a subsidiary of Alliance Trust (Finance) Limited and a member of FIMBRA. During its first year the Company has developed, launched and administered both the Savings Scheme and, uniquely among Investment Trusts, a Personal Equity Plan Scheme. The two schemes have been developed entirely 'in-house' and have been designed to provide a cheap, simple and convenient stock purchase service to the Trust's stockholders without subsidy. We have been pleased with the demand for both schemes particularly as they have attracted much favourable comment and a loyal following without expensive publicity.

# Forty Largest Equity Investments

Company	Value £'000	Main Activity	Country of Incorporation
Shell Transport & Trading	18,214	Oil	UK
Philip Morris	14,219	Tobacco	USA
British Telecommunications	9,912	Telephone utility	UK
Dun & Bradstreet	7,743	Business services	USA
Beecham Group	6,779	Drugs and toiletries	UK
Johnson & Johnson	6,509	Drugs and hospital supplies	USA
BellSouth	6,252	Telephone utility	USA
Morton Thiokol	5,458	Chemicals	USA
Abbott Laboratories	5,404	Drugs and hospital service	USA
Wal-Mart Stores	5,332	Discount stores	USA
Pacific Telesis	5,200	Telephone utility	USA
US West	5,057	Telephone utility	USA
Farmers Group	4,894	Insurance	USA
ASDA-MFI Group	4,776	Food retailing	UK
Great Universal Stores	4,757	Mail order shopping	UK
Stakis	4,709	Leisure	UK
Slough Estates	4,662	Property	UK
National Westminster Bank	4,643	Banking	UK
British Petroleum	4,577	Oil	UK
Humana	4,353	Hospital and hospital service	USA
Prudential	4,199	Insurance	UK
Merck	4,097	Drugs	USA
Legal & General	4,090	Insurance	UK
PepsiCo	4,018	Food manufacturing	USA
Marks & Spencer	3,849	Multiple stores	UK
Unilever	3,795	Food manufacturing	UK
Wolverhampton & Dudley Breweries	3,794	Brewing	UK
Reckitt & Colman	3,606	Food manufacturing	UK
Rentokil Group	3,606	Pest control	UK
Nynex	3,578	Telephone utility	USA
Security Services	3,573	Security	UK
Trusthouse Forte	3,450	Leisure	UK
BAT Industries	3,403	Tobacco	UK
Marsh & McLennan	3,364	Insurance broking	USA
EMAP	3,228	Publishing	UK
Britoil	3,226	Oil	UK
Electrocomponents	3,212	Electrical parts distribution	UK
Barclays	3,204	Banking	UK
Bristol-Myers	3,141	Drugs and cosmetics	USA
Grand Metropolitan	3,065	Leisure	UK

The above investments represent 44.2% of the Company's total equity holdings excluding the investment in related companies.

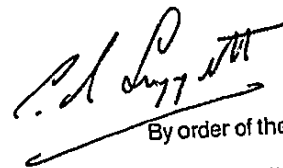
# Notice of Meeting

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NOTICE IS HEREBY GIVEN that the One Hundredth annual general meeting of the Company will be held at THE STAKIS EARL GREY HOTEL, Earl Grey Place, Dundee on Friday, 15th of April 1988, at 3.00pm for the following purposes:-

## Ordinary business

1. To receive the Report of the Directors and the Accounts for the year ended 31st January 1988.
2. To declare dividends.
3. To confirm the appointment of Mr Gavin R Suggett as a director.
4. To re-elect Mr Douglas F Hardie as a director.
5. To re-appoint Peat Marwick McLintock as auditors and to authorise the directors to determine their remuneration.



By order of the directors

G R Suggett Secretary

Dundee 22nd March 1988.

A Member entitled to attend and vote at the above meeting may appoint a proxy in his stead who need not be a member of the Company. Proxies must be lodged at the Company's registered office not less than 48 hours before the time of the meeting. Only ordinary stockholders or their representatives are entitled to attend the meeting.

The register of directors' stock and debenture interests and copies of directors' service agreements will be available for inspection at the registered office of the Company during normal business hours from the date of this notice until the date of the annual general meeting and at the meeting.

Subject to approval at the meeting, dividend warrants payable on 22nd April will be posted on 20th April to stockholders on the register on 31st March.

# Report of the Directors

The directors present their report and the accounts for the year ended 31st January 1988.

**Dividends** The Board recommends a final dividend of 19.5p per ordinary stock unit which together with the interim of 8.0p paid on 16th October 1987 makes a total of 27.5p for the year, compared with 25.0p for the previous year. The surplus of £178,000 is transferred to Revenue Reserve.

**Status** The Company has received approval as an Investment Trust by the Inland Revenue in respect of the year ended 31st January 1987 and has subsequently directed its affairs so as to enable it to continue to seek such approval. It is not a 'close company'. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. The outlook for the Company is referred to in the chairman's statement.

**Directors** At the invitation of the directors, Mr Gavin R Suggett MA, MSc, FCA, joined the board on 9th November 1987. Otherwise the directors throughout the year have been as listed below. A resolution to confirm the appointment of Mr Gavin R Suggett, whose service agreement, covering his employment as Company Secretary and Director, can be terminated by the Company at three years notice, will be submitted at the annual general meeting. Mr Douglas F Hardie, who does not have a service agreement, retires by rotation from the Board and, being eligible, offers himself for re-election.

No contracts, apart from service agreements, entered into by the Company in which any director is interested have subsisted during the year.

The interests of directors and their families in the ordinary stock units of the Company are:-

		31st January 1988	1st February 1987
Christopher Blake	Beneficial	1,305	1,234
Lyndon Bolton	Beneficial	875	800
Douglas F Hardie	Beneficial	800	800
Sir Robert Smith	Beneficial	800	800
George A Stout	Beneficial	1,709	1,054
Gavin R Suggett	Beneficial	412	412*
	As trustee	799	527*
Brian H Thomson	Beneficial	29,264	29,264
	As trustee	144,353	144,353

\* At appointment

Mr Gavin R Suggett, as trustee, acquired a further holding of 146 ordinary stock units on 23rd February 1988, as a result of participation in the Dividend and Savings Investment Scheme operated by AT Savings Limited. Apart from this transaction there has been no change in these holdings between 1st February and 11th March 1988.

**Managers** The directors have appointed Ronald Hadden, W Grant Lindsay and Alan MW Young as managers of the company.

**Stockholders** The Company has received notification of the following holdings of more than 5% of its ordinary share capital:-

	Ordinary stock units	
National Coal Board Staff Superannuation Scheme and The Mineworkers' Pension Scheme	7,105,894	(14.10%)
D C Thomson & Co Ltd	3,241,503	(6.43%)
The Standard Life Assurance Company/ Standard Life Pension Funds Ltd	2,618,434	(5.20%)

**Number of ordinary stockholders 15,465.**

**Auditors** Peat Marwick McLintock, Chartered Accountants, have indicated their willingness to continue in office. A resolution concerning their re-appointment and remuneration will be submitted at the annual general meeting.

Dundee, 11th March 1988

By order of the Board



Secretary

# Report of the Auditors

To the Members of The Alliance Trust PLC

We have audited the financial statements on pages 15 to 22 in accordance with approved auditing standards.

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31st January 1988 and of the revenue and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DUNDEE, 11th March 1988

*Robert Macniven McIntosh*

Chartered Accountants  
Royal Exchange,  
DUNDEE DD1 1DZ.

## Accounting Policies

- a. These financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments.
- b. Income and expenditure of a revenue nature are included in the Company's revenue account. Realised and unrealised profits and losses on investments and foreign currencies, which may not be distributed, are included in capital reserves.
- c. Income from assets is determined on a basis of cash receipts including taxes deducted at source and imputed tax credits, with the exception of securities covered by The Finance Act 1985, where cash receipts are adjusted as appropriate for accrued interest on purchases and sales.
- d. Interest payable and management expenses are treated on an accruals basis.
- e. The Company operates a pension scheme for the benefit of all employees which is administered by trustees and is separate from the Company. Independent actuaries undertake valuations at least every three years and contributions are paid to the scheme accordingly.
- f. Listed investments are valued at market prices or middle market prices as appropriate. Unlisted investments are valued by the directors on a basis of market prices, latest dealings, stockbroker valuations and accounting information as appropriate.
- g. Foreign assets and liabilities are valued using the middle rates of exchange ruling at the year end. Foreign income is converted at the rate of exchange applicable on receipt.
- h. No depreciation has been charged on freehold office premises, real estate and mineral rights which are shown at 1948 book value with subsequent additions at cost. In the opinion of the directors any provision for depreciation would be immaterial in relation to the revenue for the year and the assets of the Company.



# Revenue Account FOR THE YEAR ENDED 31ST JANUARY 1988

	Notes	1988		1987	
		£'000 Listed	£'000 Unlisted	£'000 Listed	£'000 Unlisted
<b>Income from Assets</b>					
<b>Income from Investments</b>					
UK dividends		8,804	35	7,310	28
UK interest		57	17	116	—
Overseas dividends		6,425	36	6,621	40
Overseas interest		2,354	22	947	4
Dividend from subsidiary	7	—	360	—	263
Interest on loan note of subsidiary		—	334	—	384
		<u>17,640</u>	<u>804</u>	<u>14,994</u>	<u>719</u>
<b>Total Income from Investments</b>			<b>18,444</b>		<b>15,713</b>
<b>Other Income</b>					
Interest received	2	2,995		4,428	
Mineral royalties		172		126	
Underwriting commission		92		190	
			<u>3,259</u>		<u>4,744</u>
<b>Total Revenue</b>			<b>21,703</b>		<b>20,457</b>
<b>Expenses, Interest &amp; Taxation</b>					
Management expenses		977		774	
Audit fee		9		8	
Administration expenses	1	986		782	
Interest payable	2	94		245	
			<u>1,080</u>		<u>1,027</u>
<b>Revenue before Taxation</b>			<b>20,623</b>		<b>19,430</b>
<b>Taxation</b>	3		<b>6,517</b>		<b>6,364</b>
<b>Revenue after Taxation</b>			<b>14,106</b>		<b>13,066</b>
<b>Dividends</b>					
<b>Preference Stock</b>			<u>68</u>		<u>68</u>
			<b>14,038</b>		<b>12,998</b>
<b>Ordinary Stock:</b>					
Interim paid — 8.0p ( 7.5p)		4,032		3,780	
Final proposed — 19.5p (17.5p)		9,828		8,820	
			<u>13,860</u>		<u>12,600</u>
<b>Revenue Reserve</b>					
Surplus revenue for the year			178		398
<b>Balance at 1st February 1987</b>			<b>7,975</b>		<b>7,577</b>
<b>Balance at 31st January 1988</b>			<b>8,153</b>		<b>7,975</b>
<b>Earnings per ordinary stock unit</b>	4		<b>27.85p</b>		<b>25.79p</b>

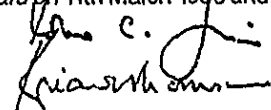
The notes on pages 18 to 21 form part of these accounts.

# Balance Sheet

AS AT 31ST JANUARY 1988

	Notes	1988 £'000	1987 £'000
<b>Fixed Assets</b>			
<b>Investments</b>	5		
Listed in the UK		234,075	201,538
Listed overseas		220,443	320,331
Unlisted	6	3,529	3,016
Subsidiary company	7	13,125	12,240
		<u>471,172</u>	<u>537,125</u>
<b>Real Estate, Mineral Rights and Office Premises</b>	8	205	205
<b>Current Assets</b>			
<b>Debtors</b>			
Sales for future settlement		655	1,758
Other debtors		4	10
Taxation recoverable	9	1,431	1,218
<b>Cash and short-term deposits</b>		<u>62,088</u>	<u>48,538</u>
		<u>64,076</u>	<u>51,522</u>
<b>Creditors: Due within one year</b>			
Amount owed to subsidiary		2	—
Purchases for future settlement		5,458	1,857
Other creditors		171	54
Taxation	9	1,736	1,724
Dividends		9,862	8,854
		<u>17,229</u>	<u>12,489</u>
<b>Net Current Assets</b>		<u>46,849</u>	<u>39,033</u>
<b>Total Assets less Current Liabilities</b>		<u>518,226</u>	<u>576,363</u>
<b>Creditors: due after one year</b>			
4½% Debenture stock 1956 or after		1,648	1,648
<b>Capital &amp; Reserves</b>			
<b>Called up Share Capital</b>			
Authorised, allotted and fully paid Preference stock	10	2,200	2,200
50,400,000 25p ordinary stock units		12,600	12,600
<b>Reserves</b>			
Capital reserves	11	493,625	551,940
Revenue reserve		8,153	7,975
		<u>514,378</u>	<u>572,515</u>
		<u>518,226</u>	<u>576,363</u>

The financial statements on pages 15 to 22 were approved by the Board on 11th March 1988 and are signed on its behalf by:

 Director  
Director

The notes on pages 18 to 21 form part of these accounts.

# Notes on the Accounts

## 1. Administration Expenses

### Administration expenses include:-

	1988 £	1987 £
Directors' remuneration:	23,125	21,000
Fees	89,293	82,380
Management salaries	46,800	41,400
Pension contributions	159,218	144,780

In addition fees totalling £5,784 (£4,123) were paid to the Company's directors by its subsidiary, Alliance Trust (Finance) Limited.

Particulars of directors' remuneration including that paid by Alliance Trust (Finance) Limited, but excluding pension contributions, were as follows:

Chairman	8,750	7,312
Highest paid director	46,173	42,871
Other directors		
£5,001 - £10,000	4 (3)	
£35,001 - £40,000	1 (1)	

The Company employs 25(21) persons excluding the directors. The costs, which are shared with The Second Alliance Trust PLC and Alliance Trust (Finance) Limited are salaries £188,000 (£155,000), pension contributions £93,000 (£78,000) and social security contributions £21,000 (£17,000).

Lease rentals paid during the year were £43,000 (£48,000). Future rental commitments net of finance charges under finance leases total £30,000 (£38,000) within one year and £30,000 (£46,000) thereafter.

## 2. Interest

	£'000	£'000
Interest payable on loans repayable within 5 years	20	129
Interest payable to subsidiary company	—	42
Interest on all other loans	74	74
	94	245
Interest received includes interest from related companies	200	—

## 3. Taxation on Revenue

Corporation tax at 35% (35.833%)	4,012	4,227
Less: relief for overseas tax	1,001	1,048
	3,011	3,179
Overseas tax	1,001	1,048
Tax credit on franked investment income	2,505	2,137
	6,517	6,364

#### 4. Earnings per Stock Unit

The earnings per ordinary stock unit are based on revenue available to ordinary stockholders of £14,038,000 (£12,998,000) divided by the 50,400,000 stock units in issue.

#### 5. Investments

	Listed in UK £'000	Listed Overseas £'000	Unlisted £'000	Subsidiary Company £'000	Total £'000
Book cost at 31st January 1987	101,010	167,329	3,821	8,400	280,560
Unrealised appreciation	100,528	153,002	(805)	3,840	256,565
Valuation at 31st January 1987	201,538	320,331	3,016	12,240	537,125
Movements during year					
Purchases — cost	47,083	61,413	913	—	109,409
Sales — proceeds	(16,088)	(103,238)	(246)	—	(119,572)
— profit/(loss)	2,779	30,179	—	—	32,958
Increase/(Decrease) in unrealised appreciation	(1,237)	(88,242)	(154)	885	(28,748)
Valuation at 31st January 1988	234,075	220,443	3,529	13,125	471,172

#### 6. Unlisted Investments

Included in the Company's unlisted investments at 31st January 1988 were 219,375 ordinary shares of £1 of City Oil Exploration Limited, a company registered in England, representing 46.43% of its issued share capital. This investment has not been consolidated in the accounts as the directors consider that to do so would be misleading. As the Company does not take an active part in the management of this company, nor operates in the same field of business, it has not been regarded as a related company. The latest balance sheet of the company shows no distributable reserves.

#### 7. Subsidiary Company

The Company owns 600,000 ordinary shares (75%) in Alliance Trust (Finance) Limited, a company incorporated in Scotland, whose main activity is finance leasing in the UK. The accounts of this subsidiary and its own subsidiaries, Secdee Leasing Limited and A T Savings Limited, are not consolidated in these accounts as the directors consider that to do so would be misleading. Secdee Leasing Limited, whose main activity is finance leasing in the UK, and A T Savings Limited, whose main activity is Personal Equity Plan and savings scheme management, are also incorporated in Scotland. A separate statement of the affairs of Alliance Trust (Finance) Limited is presented on page 21.

An independent valuation of Alliance Trust (Finance) Limited was obtained at 31st January 1988 and has been used as a basis for the valuation of the Company's interests at that date. The 1987 valuation was based on an independent valuation carried out at 31st December 1985.

	1988 £'000	1987 £'000
600,000 Ordinary Shares	10,125	9,240
£3m floating rate subordinated loan notes	3,000	3,000
	<u>13,125</u>	<u>12,240</u>

The dividend from the subsidiary in 1988 is shown inclusive of the related tax credit. The corresponding dividend in 1987 was paid as group income and did not attract any tax credit.

8. Real Estate, Mineral Rights and Office Premises		1988	1987
		£'000	£'000
	Cost at 31st January 1987	205	114
	Additions during year	—	91
	Cost at 31st January 1988	<u>205</u>	<u>205</u>

**9. Taxation** Taxation and taxation recoverable include an amount of £1,000,000 (£1,000,000) representing the estimated amount of advance corporation tax on the final dividend which will not be covered by franked investment income in the year to 31st January 1989. This amount will be recovered against the corporation tax liability for the year to 31st January 1989 which is due outwith one year.

10. Preference Stock		1988	1987
		£'000	£'000
	4¼% (now 2.975% + tax credit) cumulative preference stock	700	700
	4% (now 2.8% + tax credit) cumulative preference stock	650	650
	5% (now 3.5% + tax credit) cumulative preference stock	750	750
	4% (now 2.8% + tax credit) 'A' cumulative preference stock	100	100
		<u>2,200</u>	<u>2,200</u>

11. Capital Reserves	Note	Realised Reserve	Unrealised Appreciation	Total
		£'000	£'000	£'000
Capital reserves at 31st January 1987		295,375	256,565	551,940
Profit realised	5	32,958	—	32,958
Decrease in unrealised appreciation	5	—	(88,748)	(88,748)
Losses on currency transactions		(2,562)	—	(2,562)
Premiums from mineral rights		37	—	37
Capital reserves at 31st January 1988		<u>325,808</u>	<u>167,817</u>	<u>493,625</u>

**12. Contingent Liabilities** There are contingent liabilities at 31st January 1988 for £495,000 (£683,000) in respect of commitments to subscribe for shares and for £ nil (£1,265,000) in respect of underwriting. An amount of £2,017,000, representing the final instalments on the company's holdings in British Gas plc and British Petroleum plc, has been included in creditors and added to the cost and market valuation of investments listed in the UK.

**13. Alliance Trust  
(Finance) Ltd**

**Summarised statement of the affairs of Alliance Trust (Finance) Limited**

**Consolidated Profit and Loss account for the year to 31st January**

	1988 £'000	1987 £'000
Rentals from finance leasing	13,481	11,806
Gross earnings on finance leases	3,233	2,578
Net interest paid	(907)	(682)
Expenses	(134)	(72)
Profit on ordinary activities before taxation	2,192	1,824
Taxation	(752)	(624)
Profit on ordinary activities after taxation	1,440	1,200
Minority interest	(74)	(23)
Profit for the financial year	1,366	1,177
Dividend	(350)	(350)
Retained Profit	1,016	827

**Balance Sheets as at 31st January**

	Group		Company	
	1988 £'000	1987 £'000	1988 £'000	1987 £'000
Investment in subsidiary companies	—	—	551	551
Finance lease receivables	32,522	31,541	22,691	23,234
Net current liabilities	(11,786)	(11,276)	(3,818)	(4,676)
	20,736	20,265	19,424	19,109
Subordinated loan notes	(4,000)	(4,000)	(4,000)	(4,000)
Deferred taxation	(5,463)	(6,048)	(3,918)	(4,541)
Minority interest	(104)	(64)	—	—
	11,169	10,153	11,506	10,568
Capital and reserves	11,169	10,153	11,506	10,568

**Accounting Policies**

(a) These financial statements have been prepared under the historical cost convention.

(b) The consolidated accounts include the results of the company for the year to 31st January 1988, those of Secdee Leasing Limited to 31st July 1987 and those of AT Savings Limited to 31st December 1987. For commercial reasons the accounting dates of Secdee Leasing Limited and AT Savings Limited do not coincide with that of their parent.

(c) Gross earnings on finance leases are allocated to accounting periods such that the profit after tax represents a constant rate of return on the net cash investment in the lease during the period of the lease, taking into account Regional Development Grants. The net investment in finance leases represents the total lease payments receivable net of finance charges allocated to future periods.

(d) Provision is made for taxation at 35% on the excess of the investment in finance leases over the corresponding value for tax purposes.

A full set of Report and Accounts will be delivered to The Registrar of Companies in Edinburgh.

# Source and Application of Funds

FOR THE YEAR ENDED 31ST JANUARY 1988

Source of Funds		1988 £'000	1987 £'000
	Revenue before taxation	20,623	19,430
	Net sale of investments	10,163	—
	Appreciation of foreign currency balances	—	2,603
	Premiums from mineral rights	37	64
		30,823	22,097
Application of Funds			
	Dividends paid	12,920	11,282
	Net purchase of investments	—	7,295
	Taxation paid and suffered	6,720	5,894
	Net short-term loans repaid	—	1,644
	Acquisition of mineral rights and office premises	—	91
	Depreciation of foreign currency balances	2,562	—
		22,202	26,206
	<b>Total increase (decrease) in liquidity</b>	<b>8,621</b>	<b>(4,109)</b>
	Decrease (increase) in amount owed to subsidiary	(2)	728
	Increase (decrease) in debtors	(1,209)	(690)
	Decrease (increase) in creditors	(3,718)	2,086
	Increase (decrease) in cash and short-term deposits	13,550	(6,233)
		8,621	(4,109)

# Ten Year Record

YEARS TO 31ST JANUARY

	Total Assets less Current Liabilities	Gross Revenue	Net Revenue available for Ordinary	Earned on Ordinary Net	Ordinary Dividend Net	Net Asset Value
	£'m	£'m	£'m	Pence per Stock Unit	Pence per Stock Unit	Pence per Stock Unit
<b>1979</b>	157.4	7.7	4.2	8.28	8.00	293.4
<b>1980</b>	150.5	9.1	5.2	10.33	10.00	279.4
<b>1981</b>	174.7	10.0	5.7	11.24	10.50	327.7
<b>1982</b>	211.4	10.5	5.9	11.63	11.25	400.5
<b>1983</b>	291.8	11.7	6.5	12.70	12.30	560.1
<b>1984</b>	355.0	13.0	6.9	13.73	13.50	685.4
<b>1985</b>	444.5	15.5	8.9	17.65	17.25	874.4
<b>1986</b>	457.9	17.5	10.5	20.91	20.75	901.0
<b>1987</b>	576.4	20.5	13.0	25.79	25.00	1,135.9
<b>1988</b>	518.2	21.7	14.0	27.85	27.50	1,020.6

## Financial Calendar 1988

### Announcements

Final dividend and year-end results	11th March
Report and Accounts sent to stockholders	22nd March
Interim results	12th August

### Meetings

Annual general meeting	15th April
------------------------	------------

### Dividends and Interest

Ordinary and preference stocks final	22nd April
Ordinary and preference stocks interim	14th October
Debenture stock	15th May and 11th November



# Classification of Investments

Classification		UK	USA	Japan	Elsewhere	Total 1988	Total 1987
		%	%	%	%	%	%
<b>Equities (Including Convertibles*)</b>	<b>Capital Goods</b>	<b>5.2</b>	<b>3.0</b>	<b>0.8</b>	<b>0.6</b>	<b>9.6</b>	<b>10.4</b>
	Aerospace	—	0.8	—	—	0.8	1.4
	Building and Construction	0.9	—	—	0.1	1.0	1.3
	Electrical and Electronics	2.7	1.6	0.5	0.3	5.1	5.8
	Engineering	1.4	—	—	0.1	1.5	1.1
	Metal & Metal Forming	0.2	—	—	—	0.2	—
	Motors	—	0.5	0.3	—	0.8	0.6
	Other Industrial Materials	—	0.1	—	0.1	0.2	—
	<b>Consumer Goods</b>	<b>17.4</b>	<b>13.6</b>	<b>2.0</b>	<b>1.6</b>	<b>34.6</b>	<b>33.6</b>
	Brewers and Distillers	3.2	0.2	—	—	3.4	2.5
	Food Manufacturing	0.9	0.8	0.3	0.1	2.1	2.4
	Food Retailing	1.8	0.1	—	0.1	2.0	0.3
	Health and Household Products	2.4	4.3	0.4	0.4	7.5	8.7
	Leisure	2.4	0.1	0.2	—	2.7	2.7
	Paper and Packaging	0.6	0.2	—	—	0.8	0.4
	Printing and Publishing	1.2	2.2	0.2	0.1	3.7	3.3
	Stores	3.9	3.0	0.8	0.8	8.5	8.8
	Textiles	0.3	—	0.1	0.1	0.5	0.5
	Tobacco	0.7	2.7	—	—	3.4	4.0
	<b>Other Groups</b>	<b>12.0</b>	<b>14.4</b>	<b>0.5</b>	<b>1.8</b>	<b>28.7</b>	<b>25.0</b>
	Chemicals	1.6	2.2	0.1	0.5	4.4	3.8
	Hospitals and Hospital Services	—	0.9	—	—	0.9	0.8
	Office Equipment	0.3	2.1	0.2	0.1	2.7	3.9
	Oil and Oil Service	5.9	1.9	—	0.1	7.9	5.6
	Public Utilities	2.2	6.2	—	0.2	8.6	8.7
	Transport	0.4	—	0.2	0.2	0.8	0.3
	Miscellaneous	1.6	1.1	—	0.7	3.4	1.9
	<b>Financial</b>	<b>12.3</b>	<b>3.0</b>	<b>1.0</b>	<b>0.5</b>	<b>16.8</b>	<b>16.6</b>
	Banks and Finance	2.9	1.3	—	0.2	4.4	3.5
	Insurance	3.6	1.6	0.1	—	5.3	5.6
	Investment Trusts	1.3	—	0.8	0.3	2.4	2.3
	Property	2.6	—	—	—	2.6	2.4
	Miscellaneous	1.9	0.1	0.1	—	2.1	2.8
	<b>Total Equities</b>	<b>46.9</b>	<b>34.0</b>	<b>4.3</b>	<b>4.5</b>	<b>89.7</b>	<b>85.4</b>
<b>Fixed Interest</b>	<b>Preference &amp; Loan Stocks</b>	<b>1.1</b>	<b>0.2</b>	<b>—</b>	<b>—</b>	<b>1.3</b>	<b>7.7</b>
<b>Total Investments</b>		<b>48.0</b>	<b>34.2</b>	<b>4.3</b>	<b>4.5</b>	<b>91.0</b>	<b>93.1</b>
<b>Other Net Assets</b>		<b>3.3</b>	<b>1.0</b>	<b>4.6</b>	<b>0.1</b>	<b>9.0</b>	<b>6.9</b>
<b>Total Assets (less Current Liabilities)</b>	<b>1988 £518.2m</b>	<b>51.3</b>	<b>35.2</b>	<b>8.9</b>	<b>4.6</b>	<b>100.0</b>	
	<b>1987 £576.4m</b>	<b>36.5</b>	<b>49.8</b>	<b>8.7</b>	<b>5.0</b>		<b>100.0</b>

\* Convertibles represent 0.6% (0.5%)