The ALLIANCE *Trust PLC*

INTERNATIONAL INVESTMENT

1998
REPORT AND ACCOUNTS

CONTENTS

REGISTERED OFFICE
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Registered in Scotland No 1731

REGISTRARS
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8 Bankhead Crossway North, Edinburgh EH11 4BR. Telephone 0131-556 8555

Alliance Trust Savings Limited, PO Box 164, Meadow House, 64 Reform Street, Dundee DD1 9YP ("ATS") has approved statements in this document about the retail financial products which it provides and administers. ATS, which is regulated by the Personal Investment Authority for investment business, does not give advice and products are available on a self-select basis only. Independent expert advice should be taken, particularly as, based on information at the date of issue (16.3.98), PEPs are to be superseded in 1999 by the Individual Savings Account.

DIRECTORS

BRUCE W M JOHNSTON, CA (59)
Chairman
Appointed a director in 1991.
Executive Chairman, City Centre Restaurants from 1988 to May 1996. A director of Mid Wynd International Investment Trust and other companies. ° * †

GAVIN R SUGGETT, MA, MSc, FCA (53)
Managing Director
Joined the Company in 1973 and appointed a director in 1987.

ALAN M W YOUNG, MA, LLB (51)
Executive Director
Joined the Company in 1986 and appointed a director in 1992.

ANDREW F THOMSON, MA (55)
Appointed a director in 1989.
A director of D C Thomson & Co and a number of other companies. ° * †

WILLIAM BERRY, MA, LLB, WS (58)
Appointed a director in 1994.
Senior Partner of Murray Beith Murray WS; Chairman of Scottish Life Assurance Company; a director of Fleming Continental European Investment Trust, Scottish American Investment Company and other companies. ° * †

W NELSON ROBERTSON, CBE, MA, FCII (64)
Appointed a director in 1996.
Formerly Group Chief Executive of General Accident. A director of Morrison Construction Group and Edinburgh New Tiger Trust, and a member of the Scottish Amicable Supervisory Board. ° * †

° Non-Executive
* Member of Audit Committee
† Member of Remuneration Committee

All the directors are also directors of The Second Alliance Trust PLC

PROFILE OF THE COMPANY

The Alliance Trust is one of the largest UK Investment Trusts, with funds of over £1.5 billion invested globally. Its objective is to provide its stockholders with a growing stream of income in the form of dividends, and a long term store of capital value.

History

The Alliance Trust was founded in 1888 but its origins can be traced back to the 1870's, when a group of Dundee businessmen formed a company to finance land mortgages in the USA. Since then, it has changed its investment policy to one of global equity investment and has grown through the retention of capital gains. A brief history of the Company may be obtained from the Secretary.

Stockholders

The Company's customers are its stockholders, most of whom are individuals. At 31st January 1998 there were 30,402 registered stockholders. The number of stockholders holding their shares through the nominees of stockbrokers, banks, professional advisors and others is substantial and over 17,000 stockholders own stock through the Alliance retail products.

Corporate Structure

The Company is run by its own management under the direction of the Board. It is listed on the London Stock Exchange and complies with the rules for listed companies, including the requirement for a majority of independent directors. The Board currently consists of four non-executive directors and two executive directors. It meets formally once a month to decide on policy and monitor its implementation and, in addition, the directors normally meet with the executive each week.

Management

The day to day management of the Company and of its portfolio is carried out by its own staff, who work exclusively for the Company and its subsidiaries and for The Second Alliance Trust PLC, with whom common costs are shared. The Company's only office is in Dundee and investment staff travel world-wide to monitor and seek out suitable investments.

The Second Alliance Trust PLC

The Second Alliance Trust PLC has been managed alongside the Company since 1918, with an investment policy identical to that of the Company, with integrated administration and management and the equitable sharing of costs. This relationship avoids conflicts of interest and enables both trusts to maintain their independence on an economic basis.

Portfolio

The Company's assets are invested worldwide on a long term basis in over 400 companies. To meet the Company's objectives the portfolio is almost entirely invested in equity securities, with risks being contained by a policy of wide diversification across companies, industries, continents and currencies. The top 50 investments are listed on page 14 and a summary of the portfolio by category is given on page 15. The Company aims to invest in well managed businesses which it judges will deliver good long term returns on the capital employed. The performance of investments is monitored against the appropriate indices, but there is no policy to track any index. Investments are chosen on their merits and changes of emphasis are achieved by moderate movements of funds from one investment to another.

ATTRACTIONS TO THE PRIVATE STOCKHOLDER

The emphasis on equity returns, wide diversification of risk and cost effective management makes Alliance Trust stock a good long term core investment for the private individual.

Costs and Taxation

With its singular concentration on maximising returns to stockholders, the Company has always placed considerable emphasis on the control of management and administration costs, and these currently amount to 0.13% of total assets. These costs are offset against income for corporation tax purposes and the Company is not subject to taxation on capital gains.

Price and Discount

The price at which ordinary stock units may be purchased or sold through the stock market is determined by supply and demand. The price usually stands at a discount to the underlying value of the Company expressed as the net asset value per ordinary stock unit. This discount varies over time and may represent an additional risk factor for short term investors, whose returns can be enhanced or reduced by a fall or rise in the discount. Long term holders for whom the Company's investment policy is intended are, however likely to benefit as they receive an enhanced income yield on the capital invested.

Retail Products

Investing through the Alliance PEP and Pension Plan can be a tax and cost effective means of holding Alliance Trust stock. Investing through the Investment Plan does not confer any tax advantages but can, nevertheless, be a highly cost effective way of building up a holding through regular subscription or lump sum investment. Further details of these products are given on pages 12 and 13.

CHAIRMAN'S STATEMENT

Dividend

The Board recommends that the final dividend be increased from 38.5p to 40.5p, which will give a total dividend for the year of 59.0p per stock unit compared with 55.5p last year. This represents an increase of 6.3% which compares with an increase of 3.3% in the Retail Price Index over the corresponding period.

Results

Consolidated earnings rose 9.1% as UK dividends came through well, although overseas income was again restricted by the strength of Sterling. Special payments were particularly significant this year, notably from British Telecom, and an influence of the July Budget has been to bring more increases forward in the form of Foreign Income Dividends, ahead of the abolition of Advance Corporation Tax next year.

While these erratic features can distort short term income patterns, the underlying trend of dividends is still positive. In addition, the scope for increasing our own dividends is further supported by revenue reserves.

Net assets grew by 15.2% over the year under review and attained a record level of £1,561m at the year end, which is equivalent to £30.97 per ordinary stock unit. Our UK portfolio performed in line with the FT-SE All-Share Index, which appreciated 21.5%. Index movements in other Western markets were similar after adjusting for the strength of Sterling. However, despite our exposure to the Far East being modest, relatively defensive, and biased towards Australia, the whole region was the principal constraint on our total result.

Outlook

Equity markets were paying little heed to risk in the strong run up to mid year, justified by the good performance of bonds and gilts in response to the prospect of lower budget deficits in the US and the UK. Since then, the world has become a much less confident place following the contagious series of crises in Asia. The skills of all policy makers around the world are being tested to the limit, especially in the US and the UK, whose robust currencies have already created economic imbalances, particularly in manufacturing.

The full effect of the intensification of competitive forces, resulting from the collapse in Asia, has yet to hit the West. The best hope is that over the current year these forces will act at the appropriate time and be just strong enough, but no more, to temper the other key force building up in the US and the UK, in the form of labour cost pressures. Otherwise, any policy responses against this uncertain global background could easily result in less than the optimal mix of growth and inflation that markets have come to take for granted.

The dilemma for equities, having been led such a long way by the strong valuation effect of lower bond yields, is that if the yield influence weakens, it could be some time before the trend of profits growth can accelerate sufficiently to pick up the running.

It has been possible, so far, to justify the appreciation of markets on fundamental valuation principles, and any doubts have been dispelled by the expectation that savings flows will remain robust. At the corporate level, the US lead in companies buying back their own stock is ever more widely being followed, often in conjunction with a merger or other financial activity. While this can offer support to share prices in the short term and is useful in certain over-capitalised sectors, it is no substitute for the expansion which genuine growth should offer. The fear has to be that some of this action is merely self-feeding, driven solely by excess liquidity, which should at some stage be mopped up, leaving high stock valuations unsupported.

We remain focused on the equity of quality companies, of all sizes, which are capable of developing opportunities for good long term returns in changing economic environments. Our present broad spread of holdings across the major equity markets and sectors within them appears appropriate for now. Although it is too soon to judge the final outcome of the Asian crisis, we are beginning to see some more rewarding prospective returns across all markets, and have now reinvested some of the cash held at the year end.

Retail Investment and Savings

The development of our retail products business over recent years has been an outstanding success, with investors' assets held at the year end valued at £645m. The products are innovative and designed to provide investors with a flexible, cost effective and, where appropriate, tax efficient investment portfolio service, in conjunction with a core investment in stock of the Company or The Second Alliance Trust PLC. Further information is given on pages 12 and 13. It is the intention of the Board to continue to develop this business and the products offered to suit investor demand, and in parallel with changes in pensions and taxation legislation.

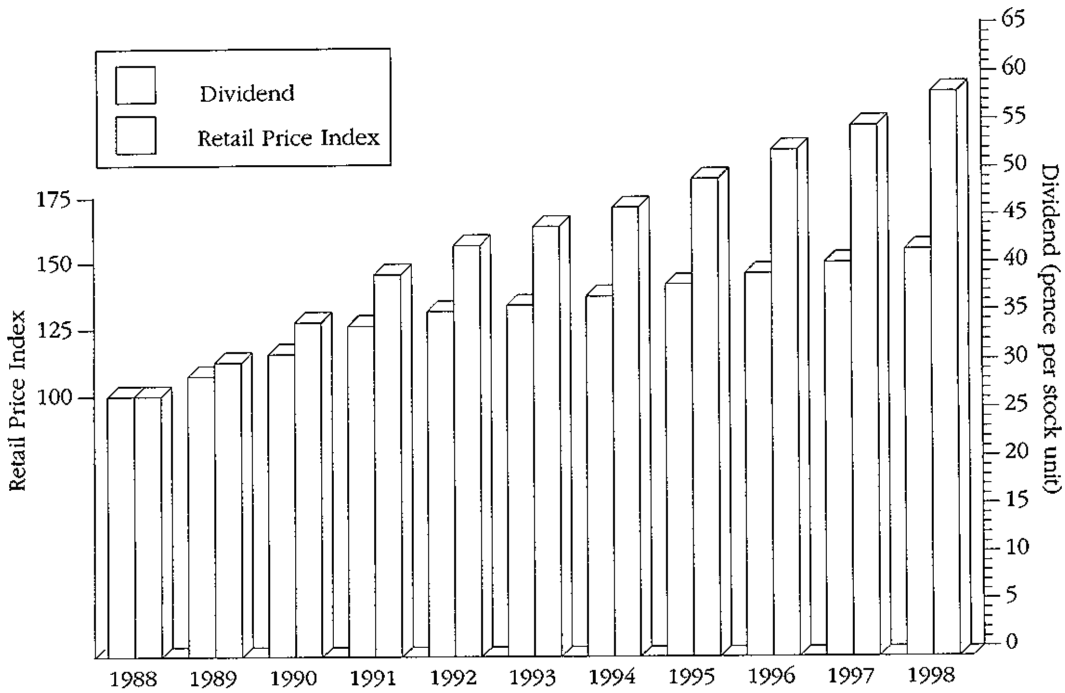
16th March 1998 — Bruce W M Johnston

COMPANY RECORD

years to 31st January

	Total Assets less Current Liabilities	Total Income	Net Revenue available for Ordinary Stockholders	Ordinary Stock Earnings	Ordinary Stock Dividend (net)	Net Asset Value
	£m	£m	£m	Pence per Stock Unit	Pence per Stock Unit	£ per Stock Unit
1988	518.2	21.7	14.0	27.85	27.50	10.21
1989	593.3	23.7	15.8	31.27	31.00	11.70
1990	693.5	26.7	18.0	35.74	35.00	13.68
1991	628.6	30.3	20.5	40.66	40.00	12.39
1992	779.6	32.1	21.9	43.50	43.00	15.39
1993	900.6	33.4	23.0	45.70	45.00	17.79
1994	1,078.9	34.2	23.8	47.28	47.00	21.33
1995	954.6	37.5	27.1	53.79	50.00	18.85
1996	1,228.3	39.2	28.4	56.30	53.00	24.28
1997	1,358.8	40.4	29.5	58.61	55.50	26.88
1998	**1,564.6**	**44.2**	**32.7**	**64.89**	**59.00**	**30.97**

DIVIDEND CHART



L-R Neil Tong, Matthew Strachan, Grant Lindsay (Manager), Ronald Hadden (Manager)
Seated Shona Dobbie, Gavin Suggett, Alan Young

SUMMARY

Company Investment Changes £000

	UK	Continental Europe	North America	Far East	Total
Valuation at 31st January 1997	710,439	136,568	322,573	136,313	1,305,893
Purchases	56,770	59,590	8,593	40,862	165,815
Sales	(53,373)	(38,559)	(26,487)	(68,455)	(186,874)
Appreciation (Depreciation)	146,084	20,023	63,559	(25,317)	204,349
Valuation at 31st January 1998	859,920	177,622	368,238	83,403	1,489,183

UNITED KINGDOM

The UK equity market put in a robust performance over the year under review, rising by 21% as measured by the FT-SE All-Share Index. This was despite the further strength of Sterling, which gained more than 11% against the basket of currencies and 14% against the DMark. With many British companies operating internationally, Sterling inevitably had a negative impact on corporate earnings. That was demonstrated by profits growth of 8.5% for the market as a whole, but of only 6% for the more internationally exposed industrial sectors. Nevertheless, exports remained surprisingly resilient in the face of the strong pound, reflecting in part the improved management skills of exporting companies as they cut costs and reduced prices to maintain sales.

Economic activity rose by 3.1% in 1997, driven by a resurgent service sector. The long awaited "feel good factor" finally appeared as unemployment fell to levels not seen for 17 years and personal taxation was largely unscathed by the new government's first Budget, while windfalls created by the demutualising building societies and insurance companies amounted to an unexpected £35 billion. Against this background the housing market remained firm and retail sales grew at their fastest rate for nearly 10 years.

Faced with the evidence of a vigorous economy, the newly formed Monetary Policy Committee of the Bank of England, which had been granted operational independence by Chancellor Brown in May, raised interest rates five times. By contrast, long term interest rates tumbled from over 7.5% to 6% at the 10 year maturity dates, aided by the strength of bond markets in Europe and the US. Confidence was reinforced by a 2.5% inflation target, a rapidly shrinking government borrowing requirement and the new government's repeated commitment to tight fiscal control.

The strong gilt-edged market was one of the major drivers of equities, whose only significant setback came in October, when concerns over the collapse of Asia's financial markets caused a 10% fall, but that has been gradually recouped, allowing the year to end on a high. Our quoted UK portfolio performed in line with the FT-SE All-Share Index.

HAYS PLC

INVESTMENT £13,347,000

MAIL SERVICES SORT AND DELIVER AN AVERAGE OF TWO MILLION DOCUMENTS A NIGHT.

The company provides logistics and distribution, specialist mail and information management, and personnel recruitment services for corporate clients.

A characteristic of the rise in the stockmarket has been the outperformance of the largest companies which are more exposed to foreign investors' influence. That was focused on very few sectors, although some subsequent broadening of interest is now occurring. Medium sized companies, as represented by the FT-SE 250 Index, showed capital appreciation of only 6%, which was more in line with profits.

During the year we were small net purchasers, adding significantly to our holdings of convertible stocks which stood to benefit from the positive bond influences. We also took new positions in Barclays and Northern Rock, the recently demutualised building society, and added to Royal Bank of Scotland and Bank of Scotland. Other new holdings included Bodycote International, a service company specialising in metal treatment, and Forth Ports, an operator of east coast British ports. We sold BTR, Courtaulds and Thorn, took some profits in GEC, Spirax Sarco and Standard Chartered, all with significant exposure to Asia, and a number of our holdings were taken over, including Allied Colloids, Britton Group, PSIT and Unicorn International.

The real economic ramifications of the crisis in Asia have still to be felt here. At the very least, worldwide growth will be restrained. The UK has significant direct exposure to Asia, partly as a result of its historic ties with the region, earning £60 billion in 1996 by way of exports and investment income.

The new UK government has reduced the rate of Corporation Tax and abolished Advance Corporation Tax on dividends from 1999. However, more subtle effects will tend to increase corporate costs over the next few years. The expense of funding company pension schemes is set to rise following the removal of their funds' ability to reclaim tax credits, and the move to paying Corporation Tax quarterly from 1999 will reduce companies' cash flow and increase their net interest costs. Also, the near term outlook for interest rates remains uncertain. The Bank of England continues to grapple with the conflict between a strong service sector and a manufacturing industry which is struggling to cope with both the firm pound and increasingly desperate competition from Asia and other emerging economies.

The rash of large corporate mergers, buy-backs and special dividends has meant that, for the first time, companies are now returning more money to shareholders than they are raising from the

RENTOKIL INITIAL PLC

INVESTMENT £37,307,000

SUPPLY AND MAINTENANCE OF TROPICAL PLANTS.

The company is a provider of a wide range of services to businesses, including hygiene and cleaning, pest control, and security services.

market. This trend may continue for some time, because the recent tax changes have further balanced the relative attractiveness of debt and equity as means of company finance. Corporate consolidation is also likely to continue as companies seek to gain a stronger global, and particularly European, position. Although valuations look high by historic, if not international standards, we will continue to invest selectively in those companies most capable of maximising long term returns on our behalf.

CONTINENTAL EUROPE

The European economic situation improved in the year under review. GDP growth was slightly higher than expected, and some broadening into domestic sectors became apparent from late summer.

The appointment of a socialist government in France lent strong support to expectations that economic performance would be broadly assessed, rather than just strictly compared to the targets established for participation in the single currency. A more accommodative monetary policy across Europe, together with very few signs of inflationary pressures, allowed bond yields to continue to fall significantly.

The generally positive economic environment, further corporate restructuring and some very large mergers, all combined to produce good returns: adjusted for Sterling's appreciation these averaged 23%. The best market return of over 45% was from Switzerland, and the lowest, at 9%, from France and Sweden.

In the course of the year over £21m was invested, notably into Spain and Switzerland. Smaller amounts were also invested into the Portuguese, Austrian and Hungarian markets, broadening our regional exposure.

Healthcare weightings were increased, with new holdings established in Gedeon Richter, a major Hungarian pharmaceutical company, and the Swiss based, global pharmaceutical companies, Novartis and Roche. Additions were made in Germany to the holdings of Fresenius and Schering, but in Sweden Astra was sold.

In the financial sector several mergers and restructurings were announced. The bias remained in favour of domestic mergers with significant cost cutting potential, although both Allianz and Zurich, the major German and Swiss insurers, embarked on significant cross border deals to strengthen their positions in the pan-European market. Our exposure to such secular change was increased through new investments in Bayerische Vereinsbank, Erste Bank and Swiss Life and additions to holdings in BBV and Deutsche Bank.

SAP AG

INVESTMENT £10,397,000

A SELECTION OF THE COMPANY'S PRODUCTS.

Based in Germany, the company develops and supplies standard application computer software to a wide variety of customers worldwide.

As the year progressed, pockets of domestic economic strength became more established, particularly in Holland, where Vendex, the retail and services company, was purchased and in Spain, where investments in Acciona, a construction company, Cofir, an hotel and wine company, and Metrovacesa, a real estate company, were made.

The next 12 months will be critical for European economics, politics and markets. At a domestic level, the first EMU participants should be identified in May, with initial conversion to the Euro planned for 1st January 1999. Germany is likely to provide the largest remaining hurdles for the first stage of monetary union with a challenge in its courts and the general election in September, but expectations remain that the Euro will be launched as planned.

It should also become clearer whether European economic growth is robust enough to withstand the expected downturn in export markets and increased competition caused by the Asian currency devaluations. Beyond this, it is expected that restructuring will remain a key corporate theme and that low interest rates and the need to save for the future should continue to provide good demand for European equities. The outlook for European equities thus appears relatively positive.

NORTH AMERICA

Markets began inauspiciously in the year under review, but rallied strongly from an April low on the back of the balanced Budget deal. Over the first half, the US was one of the best performing markets, but the second half saw a largely sideways trend before the Asian crisis triggered a flight to quality, which finally benefited both US bonds and equities once more. By our year end, the S & P Composite Index was near its high, having gained 25%, or 22% adjusted for Sterling, which was strong even against the Dollar. Seven years of unbroken economic growth is unparalleled, with rising equity markets culminating in appreciation of over 20% in each of the last three years.

Some further upward moves in short term interest rates, beyond the quarter point rise in March, was expected for much of the year but none materialised, particularly as the Asian situation was still deteriorating fast. The lower inflation rate meant, however, that there was effectively a tightening in real terms.

MERCK & CO INC
INVESTMENT £12,556,000
RESEARCH AND DEVELOPMENT IS A MAJOR INVESTMENT FOR THE COMPANY.
An American global pharmaceutical company.
Courtesy of Merck & Co Inc. Photographer: William Taufic Photographs.

Yields on long dated Treasury bonds fell from 6.6% to 5.7% encouraged by the approval of the statute to ensure steady reduction in the Budget deficit. Moreover, the strong economy has resulted in government revenues greater than forecast and an actual budget surplus well ahead of the target date. This has reduced funding requirements, and the ensuing tighter supply of new government paper should help keep yields in check for the future and is a necessary pre-condition for any further declines in real yields.

A similar shortage of quality equities is emerging. The enormous level of corporate activity is reducing the equity base through acquisitions, mergers and stock buy-backs, all at a time when demographic changes still suggest an increasing propensity to save.

However, growth in the aggregate profits for the market was only 11% and for dividends a mere 3%, both well short of the capital performance. In other words, it was a further re-rating of the valuation level, influenced mostly by the lower bond yields, that lifted the market again this year. Large stocks ran strongly on the globalisation theme in the first half, but several stalled when they proved as yet unable to live up to the raised expectations placed upon them. In general, smaller capitalisation stocks did not perform particularly well on a relative basis, as witnessed by the rise of only 16.5% in the Russell 2000 Index of smaller companies. After lagging the technology inspired first half, our performance improved in the second, but still underperformed the S & P 500 Index by approximately one percentage point.

Towards the end of our year we reduced US exposure through net sales of £19m. We lightened the consumer area by partial sales of PepsiCo and Philip Morris, along with disposals of McDonalds, Tricon Global Restaurants and Wrigley, as the strong Dollar was already affecting profits growth prior to the Asian crisis. Following strong appreciation, we took some profits in General Electric. Our overweight position in the retail sector, which had performed strongly, was pared back by a reduction in Wal-Mart and several disposals, including Hechinger, Lowes and Pier One Imports. Our exposure to the buoyant financial sector has been temporarily reduced, with Integon being taken over, the sale of Synovus on its strong appreciation following its entry to the S & P 500 index and the realisation of Western National on its agreed bid. Some of the proceeds were reinvested through new holdings in Community First Bankshares, Norwest and Northern Trust, the Chicago based bank which derives two thirds of its profits from fee income.

Although now being imitated elsewhere, US companies will continue to lead in taking cost cutting measures to boost profitability, since excess capacity in the Far East and very competitive currency levels will keep product prices under pressure. Margins could contract as labour costs continue to rise, and companies also face heavy expenditure of money and non-productive time on addressing the Year 2000 issues. Productivity gains were, however, higher than expected during the year and may yet persist, keeping inflation controllable and at relatively low levels.

The biggest challenge for the Federal Reserve is that the extent, timing and duration of the dampening effects of the Asian crisis on the US economy are very unpredictable and stand to upset the delicate balance of policy which has helped nurture the best mix of growth and inflation in recent decades.

This year and next should provide long term expansion opportunities for US companies in Asia and other developing areas to make acquisitions of first class manufacturing plants, with productive workers and educated workforces, on a more realistic rate of return basis than of late. Nevertheless, in the near term, there will be short term costs to bear in the form of increased competition from such areas. Faced with high stock valuations, the market punishes individual stock prices very severely on minor short term earnings disappointments, even when long term prospects remain favourable. This should present us with good purchasing opportunities, company by company.

NATIONSBANK CORP
INVESTMENT £3,076,000
THE GROUP IS A LEADING CREDIT CARD ISSUER.
A bank holding company, based in North Carolina, operating in 16 states and the District of Columbia.

FAR EAST

The Japanese market rose very strongly in the early part of the year, but the underlying fragility of consumer confidence was exposed when tax increases, equivalent to 2% of GNP, virtually stopped the economy in its tracks. The Yen remained weak in response to loose monetary conditions, falling by 7% against the Dollar. The export sector benefited accordingly, but this too was damaged by the unfolding Asian crisis. The upshot of this background was that the weak domestic financial sector slipped back into dangerous territory, culminating in the collapse of Yamaichi Securities, Japan's largest ever corporate failure. A credit crunch has ensued with even strong companies struggling to obtain short term trade finance.

The market fell by 8%, or 13% adjusted for Sterling. However, these numbers disguise another volatile and disappointing year, when the market fell by nearly 40% in Sterling terms from summer highs, before speculative buying fuelled a sharp bounce by some of the more distressed sectors at our year end.

Imminent financial deregulation, improving corporate governance and signs of commitment to shareholder value are coming together to confirm hopes that Japan could make a more fundamentally attractive investment proposition once again. However, until there is widespread commitment to these changes in policy, dramatic for Japan, our exposure will remain very selective.

Notwithstanding the uncertain immediate future, we have added £11m to our modest exposure through quality companies such as Canon, Fuji Film, Sony and Takeda Chemical. With its blue chip and export related bias, the portfolio again performed well against the index. There were, however, disappointments in the domestic demand area, and the exposure to the retail sector was reduced because of poor trading at the superstore group, Jusco and the specialist chains, Autobacs Seven and Xebio.

Elsewhere in Asia, the collapse of currencies and stockmarkets took on truly savage proportions and the ten year economic boom ended in chaos. The seeds of this destruction may have been sown in 1993, when many of the region's stockmarkets peaked and excessive capital flows subsequently poured into unproductive projects and assets. The devaluation of the Chinese currency in 1994 was an important straw that ultimately helped to break the pegging of the region's currencies to the Dollar. Falls in markets, adjusted for Sterling, of 84% in Indonesia, over 70% in Malaysia and Thailand, and over 50% in Singapore and Korea were recorded. Relatively, Hong Kong performed least badly in Asia, falling by 34%, due to the strength of its currency peg which survived severe pressure. Holding on to the Dollar currency peg is now a crucial element in precluding the further contagious collapse of markets everywhere, as is China's promise both to avoid another early devaluation and stimulate its domestic economy.

We made net sales of £25m at generally satisfactory levels across all markets, with Malaysia seeing the largest reduction. All bank holdings, other than HSBC in Hong Kong, were sold and only our Hong Kong exposure currently remains of any significance. A number of stocks were, however, retained in companies with strong franchises and which stand to benefit from eventual recovery. The shape and style of that recovery is still some way off, as a new Asian economic model has yet to develop, but the longer term attraction of the region will return.

Reductions were also made in Australia, with net sales of £14m. Profits were realised with the sale of ANZ Bank and a pruning of the National Australia Bank holding. Both the ripple effect from Asia and direct exposures prompted these sales, as with that of BHP, the resource company. Profits were also taken in Lend Lease and in the conglomerate Southcorp. An addition was made to our Woodside Petroleum holding, whose long term natural gas projects are well placed to benefit from an Asian recovery.

SINGAPORE PRESS HOLDINGS LTD

INVESTMENT £1,950,000

CHINESE LANGUAGE NEWSPAPERS ARE BENEFITING FROM NEW INVESTMENT.

The company publishes, prints and distributes newspapers and magazines.

L-R Neil Anderson, Kevin Dann
Seated Alisdair Dobie, Gavin Suggett, Sheila Ruckley

RETAIL INVESTMENT AND SAVINGS

Structure and Strategy

The Company owns 75% of the Alliance Trust (Finance) Group ("ATF Group") which includes Alliance Trust Savings Limited, whose business is the provision of savings and investment products for the private investor. Each product is structured to provide an investment portfolio service in conjunction with a core investment in the equity stock of the Company or The Second Alliance Trust PLC (which owns the remaining 25% of the ATF Group). The long term nature of the core investment and the mutuality of the ownership structure are designed to ensure that investors gain value, not only from the service provided, but also from participation in the business.

In providing a service to stockholders and a business in which they have an investment, our strategy is to structure the products so that they attract a growing demand. This produces economies of scale, healthy finances and, to complete the circle, a continuing improvement in the products. This strategy has been successful over the last 10 years, without heavy marketing costs, largely because of the concentration on 3 key aspects. The products are designed for long term investors, the pricing structure is equitable and economies of scale accrue to the business.

- Long term investors benefit from the core Alliance Trusts' stock element and from the facility to build a portfolio of securities whose emphasis and risk characteristics can be adapted to suit their changing requirements over time. This is attractive to investors with simple or sophisticated requirements, large or small.

- Pricing is based on activity, not value, which ensures a fair basis of charges and a cost effective product.

- The business is run and the products are administered from the Company's office in Dundee with over 40 staff, using our own, internally developed, computer systems.

1997/98 Results

Financially and operationally, the year was dominated by increased volumes of business (revenue increased 56%) and, helped by booming stockmarkets, investors' assets held within our products increased by 49% to £645m. Some of the increase is probably exceptional, encouraged by political and budgetary uncertainty and by demutualisation windfalls, but the underlying trend is strongly positive. Direct debit subscriptions, alone, increased 20%. Much of the increased revenue was used to build on the organisational developments and improvements begun in 1996, with further recruitment, staff training, the upgrading of computer systems and the introduction of new products.

Products

The Alliance PEP. Originally started in 1987, this PEP has been substantially developed over the years and the latest improvements were introduced in January 1997. These incorporate more frequent and cost effective dealing and a wider investment choice. Investors are able to select additional investments from a list of over 125 other investment trusts and 350 equities and fixed income securities to add to their core investment in the Company or the Second Alliance Trust. The new PEP was widely welcomed and substantial cost savings have accrued to investors through the new net dealing arrangements. Over 3,000 new investors took out an Alliance PEP for the first time bringing the total number of PEP investors to 20,000.

The Alliance Investment Plan was introduced in May 1997 as an enhancement of the Alliance Savings Scheme. In addition to the features of a simple savings scheme which enables efficient and cost effective investment in the Company's stock, it also incorporates, the self-select features of the Alliance PEP with some innovative and interesting additions, but without the PEP tax advantages. The intention is to provide investors with a simple and cost effective way of acquiring and holding their investment portfolios after the introduction of CREST and to provide an alternative home for PEP assets should they be curtailed following the introduction of Individual Savings Accounts ("ISAs").

The Alliance Pension Plan was introduced in October 1997, following receipt of Inland Revenue approval. It is a self invested personal pension and works on the same basis as the other Alliance investment products, with the addition of the pension tax reliefs. It is provided and administered completely in-house, both to avoid the strictures on insurance based products and also to enable the economies which we are able to provide to flow through to the member in low charges. Initially the Alliance Pension Plan is only available to the self-employed, but it is intended to extend it to the employed in due course, once legislative matters are clarified with regard to ISAs and stakeholder pensions and priorities can be fixed. We regard pensions as key products for the future and the initial reaction and subscriptions to the plan are encouraging.

Individual Savings Accounts. At the time of going to press, the Chancellor has not announced the final structure of ISAs and the relationship to PEPs and TESSAs. However, based on the consultation document issued in November 1997, we expect to add an Alliance ISA to our product range. The self-select nature of ISAs should involve only minor adjustment to our systems, and the wider range of investment options, particularly in relation to investment trusts with strong overseas presence, is attractive.

Prospects

There are particular uncertainties ahead regarding PEPs and ISAs and the government is also looking at pensions and the taxation of investments generally. These will present a threat to, but also opportunities for, the retail business. In an environment of diminishing state provision and increased self responsibility, the combination of a core investment in the Company with the option of other securities to suit individual investors, must continue to be attractive. We provide the means to deliver this combination in a modern, cost and tax efficient manner and expect to see continuing strong demand.

FIFTY LARGEST EQUITY INVESTMENTS

Company	Value £000	Main Activity	Country of Incorporation
Shell Transport & Trading	63,108	Oil	UK
Rentokil Initial	37,307	Support Services	UK
British Telecommunications	34,416	Telecommunications	UK
Marks & Spencer	24,404	Retailing	UK
Zeneca	22,848	Pharmaceuticals	UK
General Electric	22,610	Diversified Industrial & Finance	USA
SmithKline Beecham	21,630	Pharmaceuticals	UK
National Westminster Bank	21,582	Banking	UK
Alliance Trust (Finance) Limited*	21,297	Banking	UK
Glaxo Wellcome	21,244	Pharmaceuticals	UK
Lloyds TSB	21,179	Banking	UK
EMAP	20,914	Media	UK
Johnson & Johnson	20,388	Healthcare	USA
Bank of Scotland	19,519	Banking	UK
Electrocomponents	17,611	Distributors	UK
Standard Chartered	16,669	Banking	UK
British Petroleum	15,680	Oil	UK
Great Universal Stores	15,622	Retailing	UK
Unilever	15,536	Food Producer	UK
Reckitt & Colman	15,486	Consumer Products	UK
Bristol-Myers Squibb	15,365	Healthcare	USA
Slough Estates	15,087	Property	UK
Wal-Mart Stores	14,873	Retailing	USA
Prudential	14,409	Life Assurance	UK
Scottish & Newcastle	13,572	Breweries, Pubs & Restaurants	UK
BAT Industries	13,498	Insurance & Tobacco	UK
Hays	13,347	Support Services	UK
Royal Bank of Scotland	13,311	Banking	UK
General Accident	13,192	Insurance	UK
Granada Group	13,073	Leisure & Hotels	UK
Merck	12,556	Pharmaceuticals	USA
Independent Insurance	12,336	Insurance	UK
Gehe	12,116	Pharmaceutical Distributor	Germany
Bass	12,017	Breweries, Pubs & Restaurants	UK
Stakis	11,999	Leisure & Hotels	UK
Abbott Laboratories	11,642	Healthcare	USA
SAP	10,397	Computer Software	Germany
Marsh & McLennan	10,112	Insurance Broker	USA
Legal & General	9,963	Life Assurance	UK
Diageo	9,882	Spirits, Food & Retailing	UK
Tesco	9,662	Retailing	UK
BellSouth	9,132	Telecommunications	USA
Chevron	9,052	Oil	USA
GEC	8,941	Electronics & Electricals	UK
British Aerospace	8,614	Engineering	UK
Schlumberger	8,579	Oil Services	USA
Novartis	8,494	Pharmaceuticals	Switzerland
PepsiCo	8,484	Food and Beverages	USA
Barclays	8,337	Banking	UK
Securicor	7,772	Telecommunications	UK

* Subsidiary company

The above investments represent 54.5% of the Company's total equity holdings.

CLASSIFICATION OF INVESTMENTS

CLASSIFICATION

	UK	Continental Europe	North America	Far East	**Total 1998**	Total 1997
EQUITIES (INCLUDING CONVERTIBLES*)	%	%	%	%	%	%
Mineral Extractions	**5.5**	**0.2**	**2.3**	**0.2**	**8.2**	8.4
Extractive Industries	0.3	—	—	0.1	**0.4**	0.2
Oil	5.2	0.2	2.3	0.1	**7.8**	8.2
General Industrials	**4.7**	**2.6**	**4.5**	**1.5**	**13.3**	16.0
Building & Construction	0.5	0.2	0.2	0.1	**1.0**	1.6
Chemicals	1.0	0.6	1.0	0.2	**2.8**	3.0
Diversified Industrials	—	0.4	—	—	**0.4**	1.2
Electronic & Electrical Equipment	0.9	0.6	2.0	0.9	**4.4**	4.2
Engineering	1.9	0.8	1.2	0.3	**4.2**	4.7
Paper, Packaging & Printing	0.4	—	0.1	—	**0.5**	1.3
Consumer Goods	**9.5**	**3.3**	**5.1**	**0.5**	**18.4**	17.9
Alcoholic Beverages	0.9	—	—	0.2	**1.1**	1.0
Food Producers	1.5	0.3	0.7	—	**2.5**	2.5
Health Care	0.4	0.9	1.9	—	**3.2**	3.8
Pharmaceuticals	4.7	1.9	2.5	0.3	**9.4**	7.8
Miscellaneous Consumer	2.0	0.2	—	—	**2.2**	2.8
Services	**21.2**	**3.2**	**7.8**	**1.9**	**34.1**	34.3
Distributors	1.2	0.1	—	—	**1.3**	1.3
Leisure & Hotels	2.2	0.2	—	0.1	**2.5**	2.9
Media	2.6	0.1	0.6	0.3	**3.6**	3.6
Retailers	5.3	1.6	2.0	0.2	**9.1**	9.1
Breweries, Pubs & Restaurants	2.6	—	—	—	**2.6**	2.8
Support & Other Services	4.1	1.2	2.6	1.3	**9.2**	9.3
Telecommunications	3.1	—	2.6	—	**5.7**	5.3
Transport	0.1	—	—	—	**0.1**	—
Utilities	**0.2**	**0.3**	**0.8**	—	**1.3**	1.8
Water, Electricity & Gas	0.2	0.3	0.8	—	**1.3**	1.8
Financials	**13.7**	**1.8**	**2.9**	**1.2**	**19.6**	17.4
Banks	6.9	1.2	1.4	0.6	**10.1**	7.7
Insurance	3.6	0.2	1.3	—	**5.1**	4.4
Property	1.5	0.1	0.2	0.4	**2.2**	2.5
Investment Trusts	0.3	0.3	—	0.2	**0.8**	1.0
Other Financials	1.4	—	—	—	**1.4**	1.8
Total Equities	**54.8**	**11.4**	**23.4**	**5.3**	**94.9**	95.8
FIXED INTEREST						
Preference and Loan Stocks	**0.2**	—	—	—	**0.2**	0.2
Total Investments	**55.0**	**11.4**	**23.4**	**5.3**	**95.1**	96.0
OTHER NET ASSETS	**2.0**	**2.4**	**0.5**	—	**4.9**	4.0
TOTAL ASSETS LESS CURRENT LIABILITIES - COMPANY						
1998 £1,564.6m	**57.0**	**13.8**	**23.9**	**5.3**	**100.0**	
1997 £1,358.8m	52.4	10.8	26.8	10.0		100.0

* Convertibles represent 2.7% (2.0%)

REPORT OF THE DIRECTORS

The directors present their report and the accounts for the year ended 31st January 1998.

BUSINESS

The directors consider that, having regard to the financial structure of the Group and its future prospects, it is appropriate to maintain the going concern basis in the preparation of the accounts. A review of the development of the business is given in the Management Review, the outlook being referred to in the Chairman's Statement.

DIVIDENDS

The Board recommends a final dividend of 40.5p per ordinary stock unit which, together with the interim of 18.5p paid on 3rd October 1997, makes a total of 59.0p for the year compared with 55.5p for the previous year. A surplus of £2,969,000 is transferred to the Company's revenue reserve.

TAX STATUS

The Company, which is an investment company within the meaning of section 266 of the Companies Act 1985, has received approval as an investment trust from the Inland Revenue under section 842 of the Income and Corporation Taxes Act 1988 in respect of the year ended 31st January 1997 and has subsequently directed its affairs to enable it to continue to seek such approval.

DIRECTORS AND OFFICERS

The present directors, listed below, all served throughout the year. The Articles of the Company require only the retiral by rotation of the director who has been longest in office since last election, but by Board resolution one third of the directors, including executive directors, retire each year. Mr William Berry and Mr Andrew F Thomson, non-executive directors, neither of whom has a service contract with the Company, retire and, being eligible, offer themselves for re-election.

No director had any material interest during the year in any contract, being a contract of significance, with the Company or any subsidiary company.

No director has any interest in the Company's preference stocks or debenture stock and no director, nor any member of his immediate family, has been granted options to subscribe for stock in or debentures of the Company or in any body corporate in the same Group as the Company. The interests of the directors in the ordinary stock units of the Company are given below.

	31st January 1998		1st February 1997	
	Beneficial	**Non-Beneficial**	Beneficial	Non-Beneficial
William Berry	**636**	**72,557**	566	75,752
Bruce W M Johnston	**233**	**14,536**	200	14,536
W Nelson Robertson	**1,000**	**1,000**	1,000	1,000
Gavin R Suggett	**437**	**8,153**	414	6,474
Andrew F Thomson	**12,494**	**153,068**	10,338	157,068
Alan M W Young	**1,725**	—	1,390	—

On 9th February and 11th March 1998, Mr Berry's non-beneficial interest was reduced by 4,000 and 2,000 ordinary stock units respectively. On 11th February and 10th March 1998, Mr Suggett's non-beneficial interest was increased by 37 and 34 ordinary stock units respectively following purchases through the Alliance Investment Plan.

There have been no other changes in the above holdings between 31st January and 16th March 1998.

STOCKHOLDERS

The undernoted stockholders have reported an interest of 3% or more in the ordinary share capital:-

	Ordinary stock units	
The Standard Life Assurance Company	3,274,399	(6.50%)
D C Thomson & Co Ltd	3,241,503	(6.43%)

CORPORATE GOVERNANCE

The Company has complied throughout the year with the provisions of the Cadbury Committee's Code of Best Practice. A report on internal financial controls follows below.

Given the composition of the Board which has a majority of non-executive directors, the formal process for selection of new directors and recommendations as to their appointment are dealt with by the Board as a whole rather than by a separate nomination committee. The Audit Committee consists of four non-executive directors and meets at least three times a year.

The Company has complied throughout the year with Section A of the best practice provisions annexed to the Listing Rules. These best practice provisions relate to the establishment and conduct of the Remuneration Committee, whose report is given on page 18.

Internal Financial Controls

A statement concerning the internal financial controls operational within the Company and its subsidiaries is now a requirement following the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance. These financial controls have, however, always been a subject of importance to the Board and management.

The purpose of these internal controls is to minimise the risk of loss through incompetence, mistake or fraud, whilst allowing the Group to benefit from investment opportunities and take appropriate business risks where conflicts inevitably arise between risk and return. The Board acknowledges and accepts responsibility for the systems of internal financial controls and for judging the balance to be struck, taking into account the reasonable expectations of its stockholders and the regulatory and business environment in which the Group operates. Systems of internal control can provide only reasonable and not absolute assurance against material misstatement or loss, but the Board regards it as one of its main responsibilities to keep such systems under review and to enhance them where appropriate. The control mechanisms include:

(1) **Division of Powers.** The Board presently consists of two executive directors and four non-executive directors including the Chairman. It is the intention always to maintain a majority of non-executives and a separation of the functions of Chairman and Managing Director. Non-executive directors also make up the entire complement of the Audit Committee and the Remuneration Committee which have freedom of access to records, staff and outside advisers including internal and external auditors.

(2) **Segregation of Duties.** To the extent possible within a small organisation without creating inefficiency, work is divided in such a way as to reduce the chance of any one individual being able to execute a transaction from inception to completion without other members of staff becoming involved. Thus, for instance, investment decisions are made and carried out by staff other than those who arrange settlement and information technology staff do not handle funds or administration. Important areas of the business which relate to strategy and risk are reserved for decision by the Board, leaving implementation of policy to senior management.

(3) **Reporting and Internal Communication.** An essential element of the Group's operation in maintaining continuity and control is a close working environment with clear, prompt and accurate reporting.

The Group operates from an office in Dundee, has no branches elsewhere in the UK or abroad, employs staff who live within the area and has a relatively low level of staff turnover. The directors meet formally as a Board monthly and informally most weeks and non-executive directors therefore have regular contact with the executives and senior management. At Board meetings regular reports on liquidity, investment changes, income flows and performance are examined as part of the process of monitoring activity, and information is provided on the opportunities and risks facing the Group.

(4) **Monitoring.** In addition to the high level monitoring of the business by the Board as a whole, monitoring and checking are carried out at other levels. The Audit Committee reviews the effectiveness of internal financial controls throughout the Group, consults with the external auditors following audit visits and determines the audit programme of the internal auditors, an independent firm of Chartered Accountants. Alliance Trust (Finance) Limited is subject to supervision under the Banking Act 1987 and Alliance Trust Savings Limited is regulated by the Personal Investment Authority which similarly supervises that company.

All the above control mechanisms have been in place throughout the year and a review of the effectiveness of the internal control systems has been undertaken.

PAYMENT OF CREDITORS POLICY AND PRACTICE

It is the Company's policy to obtain the best terms for all business and, thus, there is no single policy as to the terms used. In agreements negotiated with suppliers, the Company endeavours to include and abide by specific payment terms. The Company endeavours to settle all investment transactions in accordance with the terms and conditions of the relevant markets in which it operates. As an authorised investment trust the Company does not transact business of a trading nature.

DONATIONS

No political or charitable donations have been made during the year.

AUDITOR

KPMG Audit Plc has indicated its willingness to continue in office. A resolution concerning its re-appointment and remuneration will be submitted at the annual general meeting.

S M Ruckley

By order of the Board
S M Ruckley
Secretary

Dundee, 16th March 1998

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee consists of all the non-executive directors, Mr Andrew Thomson (chairman), Mr William Berry, Mr Bruce Johnston, and Mr Nelson Robertson.

Full consideration has been given to Section B of the best practice provisions annexed to the Listing Rules. These provisions relate to directors' remuneration and cover remuneration policy, service contracts and compensation.

It is and has been the Company's policy to set the remuneration of executive directors at a level to attract and retain executives of appropriate ability, experience and integrity. Independent advice is taken by the committee when considered appropriate.

The emoluments of each executive director comprise salary, the use of a company car or cash equivalent, and immediate family cover under a private medical insurance scheme. Each executive director is also a member of the Company's defined benefit non-contributory pension scheme which is open to all qualifying employees. Details are given in note 4 to the financial statements on pages 26 to 27.

No share option, bonus or other incentive schemes are in force.

Executive directors have service contracts terminable by the Company on one year's notice. They also have service contracts with The Second Alliance Trust PLC.

Non-executive directors receive fees only, the maximum aggregate total of which is determined by the stockholders in general meeting.

Resolutions for the re-election of Mr William Berry and Mr Andrew Thomson as directors are referred to in the report of the directors. Mr Berry and Mr Thomson, as non-executive directors, do not have service contracts with the Company.

Andrew J. Thomson

On behalf of the Board
Andrew Thomson
Chairman, Remuneration Committee

Dundee, 16th March 1998

DIRECTORS' RESPONSIBILITIES

in respect of the preparation of the financial statements

The directors are required by law to prepare financial statements which give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the revenue and cash flows for the year. In addition, the directors are responsible for ensuring that adequate accounting records are maintained, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The directors confirm that the financial statements of the Group and the Company for the year ended 31st January 1998 have been prepared on a going concern basis and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in their preparation and that applicable accounting standards have been followed.

REPORT OF THE AUDITOR

to the Members of The Alliance Trust PLC

We have audited the financial statements on pages 20 to 33.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31st January 1998 and of the return of the Group and the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Saltire Court
Edinburgh

16th March 1998

CONSOLIDATED STATEMENT OF TOTAL RETURN

for the year ended 31st January 1998

	Notes	1998 Revenue £000	1998 Capital £000	1998 Total £000	1997 Revenue £000	1997 Capital £000	1997 Total £000
Total income	2	48,121	—	48,121	44,405	—	44,405
Expenses	3	(3,653)	—	(3,653)	(3,060)	—	(3,060)
Realised gains on investments	9	—	59,363	59,363	—	25,048	25,048
Increase in unrealised appreciation	9	—	144,855	144,855	—	107,202	107,202
Foreign exchange losses		—	(1,489)	(1,489)	—	(3,318)	(3,318)
Net return before interest payable and taxation		44,468	202,729	247,197	41,345	128,932	170,277
Interest payable	5	(1,111)	—	(1,111)	(1,084)	—	(1,084)
Return before taxation		43,357	202,729	246,086	40,261	128,932	169,193
Taxation	6	(9,896)	—	(9,896)	(9,584)	—	(9,584)
		33,461	202,729	236,190	30,677	128,932	159,609
Minority interest - equity		(492)	(65)	(557)	(445)	12	(433)
Return after taxation		32,969	202,664	235,633	30,232	128,944	159,176
Dividends on preference stocks - non-equity	7	(68)	—	(68)	(68)	—	(68)
Return attributable to equity stockholders		32,901	202,664	235,565	30,164	128,944	159,108
Dividends on ordinary stock - equity	7	(29,736)	—	(29,736)	(27,972)	—	(27,972)
Transfer to reserves		3,165	202,664	205,829	2,192	128,944	131,136

	Notes	1998 Earnings	1998 Capital	1998 Total	1997 Earnings	1997 Capital	1997 Total
Return per ordinary stock unit	8	65.28p	402.11p	467.39p	59.85p	255.84p	315.69p

The revenue column of this statement is the profit and loss account of the Group.

COMPANY STATEMENT OF TOTAL RETURN

for the year ended 31st January 1998

	Notes	1998 Revenue £000	1998 Capital £000	1998 Total £000	1997 Revenue £000	1997 Capital £000	1997 Total £000
Investment Income							
UK dividends		27,861	—	27,861	25,170	—	25,170
UK interest		128	—	128	128	—	128
Overseas dividends		10,250	—	10,250	10,991	—	10,991
Overseas interest		131	—	131	190	—	190
Mineral rights income		359	—	359	382	—	382
Dividends from subsidiary		1,594	—	1,594	891	—	891
	2	40,323	—	40,323	37,752	—	37,752
Other Income							
Deposit interest		3,899	—	3,899	2,506	—	2,506
Underwriting commission		17	—	17	136	—	136
		3,916	—	3,916	2,642	—	2,642
Total Income		44,239	—	44,239	40,394	—	40,394
Expenses	3	(1,997)	—	(1,997)	(1,828)	—	(1,828)
Realised gains on investments	9	—	59,343	59,343	—	24,954	24,954
Increase in unrealised appreciation	9	—	145,006	145,006	—	107,934	107,934
Foreign exchange losses		—	(1,489)	(1,489)	—	(3,318)	(3,318)
Net return before interest payable and taxation		42,242	202,860	245,102	38,566	129,570	168,136
Interest payable	5	(82)	—	(82)	(88)	—	(88)
Return before taxation		42,160	202,860	245,020	38,478	129,570	168,048
Taxation	6	(9,387)	—	(9,387)	(8,872)	—	(8,872)
Return after taxation		32,773	202,860	235,633	29,606	129,570	159,176
Dividends on preference stocks - non-equity	7	(68)	—	(68)	(68)	—	(68)
Return attributable to equity stockholders		32,705	202,860	235,565	29,538	129,570	159,108
Dividends on ordinary stock - equity	7	(29,736)	—	(29,736)	(27,972)	—	(27,972)
Transfer to reserves		2,969	202,860	205,829	1,566	129,570	131,136
		Earnings	**Capital**	**Total**	**Earnings**	**Capital**	**Total**
Return per ordinary stock unit	8	64.89p	402.50p	467.39p	58.61p	257.08p	315.69p

The revenue column of this statement is the profit and loss account of the Company.

BALANCE SHEETS

of the group and of the company as at 31st January 1998

	Notes	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Fixed assets					
Investments	9	**1,489,338**	1,310,324	**1,489,183**	1,305,893
Office premises	10	**614**	500	**614**	500
		1,489,952	1,310,824	**1,489,797**	1,306,393
Current assets					
Debtors	12	**17,556**	12,662	**7,275**	7,498
Bank deposits		**124,566**	96,882	**100,261**	74,298
Cash at bank and in hand		**1,574**	1,605	**916**	1,017
		143,696	111,149	**108,452**	82,813
Creditors: amounts falling due within one year	13	**(61,933)**	(56,219)	**(33,634)**	(30,420)
Net current assets		**81,763**	54,930	**74,818**	52,393
Total assets less current liabilities		**1,571,715**	1,365,754	**1,564,615**	1,358,786
Creditors: Amounts falling due after more than one year					
4½% debenture stock 1956 or after - repayable at the Company's option		**1,648**	1,648	**1,648**	1,648
Minority Interest - equity		**7,100**	6,968	**—**	—
		8,748	8,616	**1,648**	1,648
Capital and reserves					
Called-up share capital	14	**14,800**	14,800	**14,800**	14,800
Other reserves					
Capital reserve - realised	15	**663,182**	605,313	**661,957**	604,103
Capital reserve - unrealised	15	**850,301**	705,506	**865,961**	720,955
Revenue reserve	15	**34,684**	31,519	**20,249**	17,280
Total stockholders' funds		**1,562,967**	1,357,138	**1,562,967**	1,357,138
		1,571,715	1,365,754	**1,564,615**	1,358,786
Total stockholders' funds are attributable to:					
Equity stockholders	16	**1,560,767**	1,354,938	**1,560,767**	1,354,938
Non-equity stockholders	16	**2,200**	2,200	**2,200**	2,200
		1,562,967	1,357,138	**1,562,967**	1,357,138
Net asset value per ordinary stock unit	17	**£30.97**	£26.88	**£30.97**	£26.88

The financial statements on pages 20 to 33 were approved by the Board on 16th March 1998 and were signed on its behalf by:

Bruce W M Johnston, Director

Gavin R Suggett, Director

CASH FLOW STATEMENTS

of the group and of the company for the year ended 31st January 1998

	Notes	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Operating activities					
Investment income received		35,417	34,522	34,757	32,664
Deposit interest received		5,464	4,545	3,774	3,542
Underwriting commission received		17	136	17	136
Retail savings products revenue received		1,747	984	—	—
Miscellaneous income received		429	342	—	—
Loans and advances		887	(1,902)	—	—
Amounts due to depositors		(3,646)	4,795	—	—
Expenses		(3,565)	(2,980)	(1,961)	(1,678)
Net cash inflow from operating activities	18	36,750	40,442	36,587	34,664
Servicing of finance					
Interest paid		(1,087)	(1,135)	(82)	(88)
Dividends paid on preference stocks		(68)	(68)	(68)	(68)
Dividends paid to minority interests		(425)	(238)	—	—
Net cash outflow from servicing of finance		(1,580)	(1,441)	(150)	(156)
Taxation paid		(5,486)	(5,613)	(4,441)	(4,220)
Capital expenditure		(114)	—	(114)	—
Investing activities					
Purchase of investments		(162,479)	(99,015)	(162,643)	(94,731)
Disposal of investments		190,779	119,012	186,840	115,068
Net cash inflow from investing activities		28,300	19,997	24,197	20,337
Equity dividends paid		(28,728)	(27,216)	(28,728)	(27,216)
Net cash inflow before management of liquid resources and financing		29,142	26,169	27,351	23,409
Management of liquid resources					
Cash placed on short term deposits	20	(29,173)	(26,240)	(27,452)	(32,226)
Financing					
Loan from Alliance Trust (Finance) Limited		—	—	—	9,000
(DECREASE)INCREASE IN CASH	19	(31)	(71)	(101)	183

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(1) Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments and office premises, assume the Company will continue to have approval as an investment trust, and are in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies."

The consolidated statement of total return and balance sheet include the financial statements of the Company and its subsidiary companies as at 31st January 1998, made up to the same date.

(2) Valuation of Assets

Listed investments are valued at market prices or middle market prices as appropriate. Unlisted investments and mineral rights are valued by the Board on the basis of market prices, latest dealings, stockbrokers' valuations, petroleum consultants' valuations and accounting information as appropriate. Foreign assets and liabilities are valued using the middle rates of exchange ruling at the year end.

Office premises are shown at the valuation carried out during the 1995/96 financial year by chartered surveyors on a current open market value basis with subsequent additions at cost. No depreciation has been charged on this asset as, in the opinion of the Board, any provision for depreciation would be immaterial in relation to the revenue for the year and the assets of the Company.

(3) Income

Income from quoted equity shares is brought into account on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Foreign income is converted at the rate of exchange applicable on the appropriate date.

(4) Expenses and Interest

Expenses and interest are accounted for on an accruals basis using the exchange rate applicable on payment where appropriate. Expenses are charged through the revenue account except where they directly relate to the acquisition or disposal of an investment, in which case they are added to the cost of the investment or deducted from the proceeds as the case may be.

(5) Taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences.

(6) Reserves

Gains and losses on the realisation of investments and foreign currency are accounted for in the realised capital reserve. Increases and decreases in the valuation of investments held at the year end are accounted for in the unrealised capital reserve.

(7) Pension Costs

The pension scheme is open to all qualifying employees. Amounts charged against revenue are calculated with actuarial advice and represent a proper charge to cover the accruing liabilities on a continuing basis. An independent actuarial valuation of the scheme is made at least every three years.

2. INCOME

	1998 Listed £000	1998 Unlisted £000	1997 Listed £000	1997 Unlisted £000
Group				
Investment income				
UK dividends	27,766	95	24,871	299
UK interest	1,720	—	2,124	—
Overseas dividends	10,250	—	10,991	—
Overseas interest	131	—	190	—
Mineral rights income	—	359	—	382
	39,867	454	38,176	681
		40,321		38,857
Other income				
Deposit interest	5,622		3,814	
Underwriting commission	17		136	
Savings and investment products revenue	1,681		1,079	
Miscellaneous	480		519	
		7,800		5,548
		48,121		44,405
Company				
UK	27,894	1,689	24,999	1,190
Overseas	10,381	359	11,082	481
	38,275	2,048	36,081	1,671
		40,323		37,752

3. EXPENSES

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Directors' remuneration (note 4)	323	309	310	296
Staff salaries	1,282	1,026	634	514
Social security costs	127	105	75	62
Pension contributions	332	273	159	135
Auditor's remuneration for:				
- audit	27	24	17	16
- other services to the Company and its subsidiaries	4	20	—	13
Other	1,558	1,303	802	792
	3,653	3,060	1,997	1,828

The management and administration expenses of the Company amounted to £1,997,000 (£1,828,000) representing 0.13% (0.13%) of total assets less current liabilities of £1,564,615,000 (£1,358,786,000).

The Group employs 70(61) full time and 14 (15) part time staff, excluding directors, the cost of whom is shared with The Second Alliance Trust PLC. No bonus or share option schemes for staff are in operation.

	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
4. DIRECTORS' EMOLUMENTS				
Fees	**54,166**	51,300	**40,625**	38,475
Management remuneration	**210,625**	193,695	**210,625**	193,695
Company pension scheme contributions*	**58,374**	64,256	**58,374**	64,256
	323,165	309,251	**309,624**	296,426

No share option, bonus or other incentive schemes are in force.

Particulars of directors' remuneration were:	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Chairman (for whom no pension contributions are payable) - To 19.4.96	—	3,467	—	2,600
Chairman (for whom no pension contributions are payable) - From 19.4.96	**21,667**	15,667	**16,250**	11,750
Highest paid director (excluding pension contributions)	**112,365**	103,183	**112,365**	103,183
Highest paid director (including pension contributions)	**144,301**	131,735	**144,301**	131,735

Details of remuneration

	Basic Salary £	Taxable Benefits £	Pension Contributions* £	Total Emoluments Excluding Pension Contributions £	Total Emoluments Including Pension Contributions £
1998					
Executive					
Gavin R Suggett	111,000	1,365	31,936	112,365	144,301
Alan M W Young	92,500	5,760	26,438	98,260	124,698
	203,500	7,125	58,374	210,625	268,999
1997					
Executive					
Gavin R Suggett	100,000	3,183	28,552	103,183	131,735
Alan M W Young	85,000	5,512	35,704†	90,512	126,216
	185,000	8,695	64,256	193,695	257,951

	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Non-Executive - Fees only				
William Berry	**10,833**	10,000	**8,125**	7,500
Bruce W M Johnston	**21,667**	17,833	**16,250**	13,375
W Nelson Robertson (Appointed 1.2.96)	**10,833**	10,000	**8,125**	7,500
Sir Robert Smith (Retired 19.4.96)	—	3,467	—	2,600
Andrew F Thomson	**10,833**	10,000	**8,125**	7,500
	54,166	51,300	**40,625**	38,475

* Includes £1,019 in respect of Mr Suggett and £844 in respect of Mr Young relating to premiums for permanent health insurance which is available to all members of the pension scheme.

† Includes £11,382 in respect of funding for enhanced pensionable service.

4. DIRECTORS' EMOLUMENTS (CONT'D)

Directors' pensions

Both executive directors are members of an Inland Revenue approved, non-contributory, defined benefit pension scheme (see note 22, page 33) which is open to all eligible employees. Non-executive directors may not join the scheme. There are no defined contribution schemes except the additional voluntary contributions scheme which is part of the main occupational scheme and to which neither director contributes. The scheme provides for a maximum pension of two thirds final pensionable salary at a normal retirement age of 60, although early retirement after the age of 50 may be taken with the consent of the Company. A widow's pension of half the director's pension is payable on death after retirement. Both directors joined the scheme prior to 1st June 1989 and thus their prospective pensions are not subject to the Inland Revenue earnings cap. On retirement, they may commute part of their pension to a cash lump sum, within Inland Revenue limits.

Pensions in payment are increased annually by 5% or by the increase in the UK retail price index, whichever is the lower. Discretionary increases are also permitted in terms of the rules of the scheme, but this discretion may not be taken into account in the determination of any transfer value.

The table below sets out, in accordance with the Listing Rules of the London Stock Exchange, information regarding the accrued pension entitlements of the executive directors. The amounts disclosed take into account the following discretionary increases:

1. Mr Suggett was credited with four added years' service in November 1973 and a further five years were added in February 1983 when the pensionable service of scheme members was adjusted to reflect the equalisation of male and female retirement ages at 60. Both enhancements accrue evenly over the period to Mr Suggett's 60th birthday.

2. Mr Young received 2 years 11 months augmentation when a transfer value, equating to 2 years 1 month, relating to membership of a pension scheme connected to a previous employment was accepted in August 1988. In addition, in April 1995, the board agreed that his pensionable service should be enhanced by six months in respect of each actual year of service over a period of ten years ending on his 60th birthday.

	Age at 31st January 1998	Accumulated total accrued pension at 31st January 1997 £	Increase in accrued pension during year resulting from inflation £	Increase in accrued pension over and above inflation during the year £	Accumulated total accrued pension at 31st January 1998 £
Gavin R Suggett	53	51,075	1,073	6,932	59,080
Alan M W Young	51	21,722	456	3,773	25,951

In the event of an executive director dying in service, all the above pension entitlements are extinguished.

Insurance against death in service is provided through the pension scheme for all members including executive directors. This cover consists of a lump sum of four times salary, surviving spouse's pension of one half of the director's prospective pension and, if applicable, a pension equal to one third of the surviving spouse's pension for each child under 21 and in full time education (up to a maximum of three children). Separate permanent health insurance is also in place and, in the event of the permanent incapacity of a director whilst in service, the director would receive up to 75% of salary (less state benefits). These insured benefits, which are common to all members of the pension scheme, have no value on leaving service and carry no transfer value.

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
5. INTEREST PAYABLE - ALL CHARGED TO REVENUE				
On bank loans and overdrafts repayable within 5 years not by instalments	1,037	1,010	8	14
On debentures repayable wholly or partly in more than 5 years	74	74	74	74
	1,111	1,084	82	88

	Group		Company	
	1998	1997	1998	1997
6. TAX ON NET REVENUE ON ORDINARY ITEMS - ALL CHARGED TO REVENUE				
UK corporation tax at 31.32% (33%)	4,764	5,526	3,936	4,633
Overseas taxation	1,345	1,440	1,345	1,440
Tax attributable to franked investment income	5,132	4,662	5,451	4,840
Deferred taxation	—	(604)	—	(601)
	11,241	11,024	10,732	10,312
Relief for overseas taxation	(1,345)	(1,440)	(1,345)	(1,440)
	9,896	9,584	9,387	8,872

No provision has been made for advance corporation tax on the proposed final dividend as, in the opinion of the directors, such taxation will be fully relieved.

	Group & Company	
	1998	1997
	£000	£000
7. DIVIDENDS		
Dividends on non-equity stock units		
Preference -		
4¼% (now 2.975% + tax credit) cumulative preference stock	21	21
4% (now 2.8% + tax credit) cumulative preference stock	18	18
5% (now 3.5% + tax credit) cumulative preference stock	26	26
4% (now 2.8% + tax credit) 'A' cumulative preference stock	3	3
	68	68
Dividends on equity stock units		
Ordinary -		
interim paid of 18.5p (17.0p) per stock unit	9,324	8,568
final proposed of 40.5p (38.5p) per stock unit	20,412	19,404
	29,736	27,972

8. RETURN PER ORDINARY STOCK UNIT

The calculated return per ordinary stock unit is based on the issued share capital of 50,400,000 ordinary stock units and the applicable financial information below:

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Earnings	32,901	30,164	32,705	29,538
Capital	202,664	128,944	202,860	129,570
Total	235,565	159,108	235,565	159,108

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000

9. INVESTMENTS

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Investments listed on a recognised investment exchange	1,485,524	1,306,103	1,464,072	1,280,767
Unlisted investments	3,814	4,221	3,814	4,221
Subsidiary companies (note 11)	—	—	21,297	20,905
	1,489,338	1,310,324	1,489,183	1,305,893

	Group	Company		
	Investments	Investments	Subsidiary	Total
	£000	£000	£000	£000
Opening book cost	605,129	579,869	5,400	585,269
Opening unrealised appreciation	705,195	705,119	15,505	720,624
Opening valuation	1,310,324	1,284,988	20,905	1,305,893
Movements in the year				
Amortisation	(338)	—	—	—
Purchases at cost	172,022	165,815	—	165,815
Sales - proceeds	(196,888)	(186,874)	—	(186,874)
- realised gains on sales	59,363	59,343	—	59,343
Increase in unrealised appreciation	144,855	144,614	392	145,006
Closing valuation	1,489,338	1,467,886	21,297	1,489,183
Closing book cost	639,288	618,153	5,400	623,553
Closing unrealised appreciation	850,050	849,733	15,897	865,630
	1,489,338	1,467,886	21,297	1,489,183

A list of the fifty largest investments by their aggregate market value and a geographical analysis of the investment portfolio by broad industrial or commercial sector are given on pages 14 and 15.

10. OFFICE PREMISES

	Group & Company	
	1998	1997
	£000	£000
Freehold / Heritable property		
Opening valuation	500	500
Additions during year	114	—
	614	500

The historical cost of the office premises is £284,000 (£170,000).

11. SUBSIDIARY COMPANIES

The Company has the following subsidiary companies:

Name	Country of incorporation or registration	Description of shares held	Principal Activity	Country of Operation
Alliance Trust (Finance) Limited	Scotland	Ordinary	Deposit Taking	United Kingdom
Alliance Trust Leasing Limited	Scotland	Ordinary	Leasing Administration (As principal and agent)	United Kingdom
Alliance Trust Savings Limited	Scotland	Ordinary	Provision and Administration of Retail Savings Products	United Kingdom

The Company owns 75% of Alliance Trust (Finance) Limited ("ATF"). ATF owns 100% of Alliance Trust Leasing Limited and Alliance Trust Savings Limited.

Subsidiary company valuation

The investment in ATF is valued in the Company's accounts at £21,297,000 (£20,905,000) being the net asset value of the Company's equity interest taking into account the Government securities at market value. A summary consolidated balance sheet of ATF at 31st January 1998 is given below:-

	1998 £000	1997 £000
Government securities (see below)	21,135	25,260
Money at call and short notice	24,963	23,172
Loans to parent companies	12,000	12,000
Total assets	58,098	60,432
Financed by:		
Amounts due to depositors	29,084	32,372
Creditors less debtors	935	263
	30,019	32,635
Shareholders' funds	28,079	27,797
	58,098	60,432

Government securities with fixed maturity dates are included in the balance sheet at cost adjusted for the amortisation of premiums or discounts arising on purchase which is taken to revenue over the period to redemption. At 31st January the market value of Government securities was £21,452,000 (£25,335,000).

The full report and accounts of ATF are delivered to the Registrar of Companies in Edinburgh.

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
12. DEBTORS				
Amounts due from brokers	**9,893**	3,785	**3,818**	3,785
Loan to The Second Alliance Trust PLC (Note 23)	**3,000**	3,000	**—**	—
Taxation recoverable	**889**	941	**889**	941
Prepayments and accrued income	**3,105**	3,440	**2,557**	2,756
Other debtors	**669**	1,496	**11**	16
	17,556	12,662	**7,275**	7,498

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Amounts due to depositors	**29,085**	32,372	**—**	—
Amounts due to brokers	**9,813**	709	**3,442**	709
UK corporation tax payable	**904**	1,679	**613**	1,171
Loan from Alliance Trust (Finance) Limited (Note 23)	**—**	—	**9,000**	9,000
Proposed dividends	**20,446**	19,438	**20,446**	19,438
Other creditors	**1,685**	2,021	**133**	102
	61,933	56,219	**33,634**	30,420

	Group & Company 1998 £000	Group & Company 1997 £000
14. CALLED-UP SHARE CAPITAL		
Authorised, allotted, called-up and fully paid		
50,400,000 ordinary stock units of 25p each	**12,600**	12,600
$4\frac{1}{4}$% (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
	14,800	14,800

	Group Capital reserve realised £000	Group Capital reserve unrealised £000	Group Revenue reserve £000	Company Capital reserve realised £000	Company Capital reserve unrealised £000	Company Revenue reserve £000
15. RESERVES						
Beginning of year	605,313	705,506	31,519	604,103	720,955	17,280
Exchange differences	(1,489)	—	—	(1,489)	—	—
Net gain on realisation of investments	59,363	—	—	59,343	—	—
Increase in unrealised appreciation	—	144,855	—	—	145,006	—
Minority interest	(5)	(60)	—	—	—	—
Retained net revenue for the year	—	—	3,165	—	—	2,969
End of year	663,182	850,301	34,684	661,957	865,961	20,249

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000

16. RECONCILIATION OF MOVEMENTS IN STOCKHOLDERS' FUNDS

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Opening equity stockholders' funds	1,354,938	1,223,802	1,354,938	1,223,802
Total recognised gains and losses	205,829	131,136	205,829	131,136
Closing equity stockholders' funds	1,560,767	1,354,938	1,560,767	1,354,938
Non-equity stockholders' funds	2,200	2,200	2,200	2,200

There was no movement in non-equity stockholders' funds during the year.

17. NET ASSET VALUE PER ORDINARY STOCK UNIT

Net asset value per ordinary stock unit is based on total stockholders' funds attributable to equity stockholders and on 50,400,000 ordinary stock units.

18. RECONCILIATION OF NET REVENUE BEFORE INTEREST AND TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Net revenue before interest payable and taxation	44,468	41,345	42,242	38,566
Scrip dividends	(439)	(508)	(439)	(508)
Amortisation — non-cash adjustment	338	261	—	—
Decrease in accrued income	335	1,048	199	1,276
(Decrease)increase in other creditors	(360)	(842)	31	(66)
Decrease(increase) in other debtors	827	(1,588)	5	236
(Decrease)increase in amounts due to depositors	(3,287)	5,388	—	—
Tax on investment income	(5,132)	(4,662)	(5,451)	(4,840)
Net cash inflow from operating activities	36,750	40,442	36,587	34,664

19. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
(Decrease)increase in cash in the period	(31)	(71)	(101)	183
Cash placed on short term deposits	29,173	26,240	27,452	32,226
Loan advanced by Alliance Trust (Finance) Limited	—	—	—	(9,000)
Foreign exchange losses	(1,489)	(3,318)	(1,489)	(3,318)
Movement in net funds in period	27,653	22,851	25,862	20,091
Net funds at start of period	96,839	73,988	64,667	44,576
Net funds at end of period (Note 20)	124,492	96,839	90,529	64,667

	1997 £000	Cash flows £000	Exchange losses £000	1998 £000
20. ANALYSIS OF CHANGE IN NET FUNDS				
Group				
Cash at bank and in hand	1,605	(31)	—	**1,574**
Bank deposits	96,882	29,173	(1,489)	**124,566**
Debenture Stock	(1,648)	—	—	**(1,648)**
	96,839	29,142	(1,489)	**124,492**
Company				
Cash at bank and in hand	1,017	(101)	—	**916**
Bank deposits	74,298	27,452	(1,489)	**100,261**
Debenture Stock	(1,648)	—	—	**(1,648)**
Loan from Alliance Trust (Finance) Limited	(9,000)	—	—	**(9,000)**
	64,667	27,351	(1,489)	**90,529**

	Group		**Company**	
	1998 £000	1997 £000	**1998 £000**	1997 £000
21. CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS				
Contingencies, guarantees and financial commitments of the Company and the Group at the year end, which have not been accrued, are as follows:				
Underwriting commitments	—	275	—	275
Guarantees to third parties	**163**	353	—	—
	163	628	—	275

22. PENSION FUND

The Group, in conjunction with The Second Alliance Trust PLC, operates a defined benefit pension scheme which is separately funded and is administered by an insurance company on behalf of the trustees.

The pension cost charged to the Group accounts of £390,000 (£337,000) was paid during the year, and included £12,000 (£9,000) in respect of permanent health insurance premiums.

The Pension Scheme funding rate is determined, at intervals not exceeding three years, on the recommendation of a qualified actuary employed by the insurance company. The latest actuarial valuation report is dated September 1997 and relates to service by members up to 31st March 1997. The report was produced using the projected unit method of funding, made allowance for the removal of tax credits, and assumed that investment returns would exceed salary progression by 0.5% pa. This report showed assets valued at £4,825,000, a surplus of £580,000 and recommended the adoption of a funding rate of 27.3% of pensionable salaries as from 1st April 1997, which excludes the cost of permanent health insurance premiums.

23. RELATED PARTIES

The affairs of the Alliance Trust Group are managed in conjunction with those of the Second Alliance Trust Group. Although neither parent company is controlled by common stockholders, the composition of the Board of each company is currently the same and for the purposes of Financial Reporting Standard 8 they are regarded as "related parties", requiring disclosure of material, mutual transactions.

The Groups operate from the same office in Dundee, employ staff jointly and share the cost of common services. The basis of allocation is 75% for the Company and 25% for the Second Alliance Trust Group after allowing for a contribution from the Alliance Trust (Finance) Group ("ATF"), and reflects the respective sizes of the companies. During the year to 31st January 1998 The Second Alliance Trust PLC paid a contribution of £264,000 (£267,000). The minority interest shareholding in ATF is held by The Second Alliance Trust PLC. ATF has advanced interest free loans of £9,000,000 and £3,000,000 to the Company and to The Second Alliance Trust PLC, respectively, repayable in March 1999 or earlier at three months' notice.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the One Hundred and Tenth annual general meeting of The Alliance Trust PLC will be held at MEADOW HOUSE, 64 REFORM STREET, DUNDEE, on Friday 17th April 1998 at 12.30 pm for the following purposes:-

ORDINARY BUSINESS

1. To receive and consider the Report of the Directors and the Accounts for the year ended 31st January 1998.
2. To declare dividends.
3. To re-elect Mr William Berry as a director.
4. To re-elect Mr Andrew F Thomson as a director.
5. To re-appoint KPMG Audit Plc as auditor of the Company at a remuneration to be fixed by the directors.

By order of the Board

S M Ruckley

S M Ruckley Secretary

Dundee, 24th March 1998

Only those stockholders registered on the Register of Members of the Company at 12.30pm on 15th April 1998 shall be entitled to attend and vote at the meeting in respect of the stock units registered in their name at that time. Changes to entries on the Register of Members after 12.30pm on 15th April 1998 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Members entitled to attend and vote at the meeting may appoint a proxy to attend and, on a poll, to vote in their stead. A proxy need not be a member of the Company. Forms of proxy must be lodged at the Company's registered office not less than 48 hours before the meeting.

The register of directors' stock and debenture interests and copies of the directors' service agreements are available for inspection at the registered office of the Company during normal business hours.

Subject to approval at the meeting, dividend warrants payable on 24th April will be posted on 21st April to stockholders on the register on 3rd April.

FINANCIAL CALENDAR

ANNOUNCEMENTS	
Final results	16th March 1998
Report and accounts sent to stockholders	24th March 1998
Interim results	17th August 1998
ANNUAL GENERAL MEETING	17th April 1998
DIVIDENDS AND INTEREST PAYMENT DATES	
Ordinary and preference stocks final	24th April 1998
Ordinary and preference stocks interim	2nd October 1998
Debenture stock	15th May and 11th November 1998

THE ALLIANCE TRUST PLC
FORM OF PROXY AND AUTHORITY FOR ALLIANCE PEP AND INVESTMENT PLAN INVESTORS

SEE NOTES BELOW

A	I/We .... (Name)
	of .... (Address)
B	being (a) member(s) of The Alliance Trust PLC hereby appoint the CHAIRMAN OF THE MEETING
C	or .... (Name)
	.... (Address) as my/our proxy to attend and, on a poll, vote for me/us and on my/our behalf as directed below at the annual general meeting of the Company to be held on Friday, 17th April 1998 at 12.30pm and at any adjournment thereof.

			FOR	AGAINST
D	1	To receive and consider the Report of the Directors and the Accounts for the year ended 31st January 1998		
	2	To declare dividends		
	3	To re-elect Mr William Berry* as a director		
	4	To re-elect Mr Andrew F Thomson* as a director		
	5	To re-appoint KPMG Audit Plc as auditor at a remuneration to be fixed by the directors		

E	Please Sign Here ➧	Date 1998

* Member of the remuneration committee

Notes

A Please write your name and address here. Any alterations to this Proxy Form must be initialled.

B If you are an Alliance PEP and/or Investment Plan investor the form will be taken as authority for Alliance Trust Savings Nominees Limited ("ATSN") to appoint a proxy to vote for you as you indicate in respect of all your ordinary stock held in the PEP and/or Investment Plan.

C If you want to appoint someone other than the Chairman as your proxy, or if you wish ATSN to appoint someone other than the Chairman to vote for you, please cross out "the Chairman of the Meeting or" and write the person's name and address. PEP and/or Investment Plan investors who wish to attend the meeting themselves should write their own names and addresses.

D Tick the boxes indicating how you wish to vote. If you leave the boxes blank, your proxy will vote or abstain as he/she sees fit on the resolutions specified above and, unless instructed otherwise, on any other business (including amendments to resolutions) which may come before the meeting.

E Please sign and date the form. If someone else signs the form on your behalf, the authority entitling them to do so, or a certified copy of it, must accompany the form. A corporation must execute this form under its common seal or it must be signed on its behalf by an attorney or duly authorised officer of the corporation. In the case of joint holders, the holder who votes and whose name appears first in the register of members in respect of the joint holding shall be accepted to the exclusion of the other joint holders.

Returning the Form

The form must be returned to the Company's registered office no later than 12.30pm on 15th April 1998. If you are a registered ordinary stockholder and you subsequently decide to attend the meeting you may do so.

To assist in the processing of this form, please tick below

My/our stock is held:

On the Main Register ☐

In the Alliance PEP and/or Investment Plan ☐

Internal Use Only	
Main Reg	
IP	
PEP	

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. DE 10

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THE SECRETARY
THE ALLIANCE TRUST PLC
MEADOW HOUSE
64 REFORM STREET
DUNDEE
DD1 9XA

FIRST FOLD

THIRD FOLD AND TUCK IN