

THE ALLIANCE TRUST PLC

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Directors



Sir Robert Smith, CBE, MA, LL.D., CA, Chairman (61). A director of several companies including the Bank of Scotland, Edinburgh Investment Trust, Sidlaw Group and the Standard Life Assurance Company.



Lyndon Bolton, Managing Director (52). A director of the TSB Group and the General Accident, Fire and Life Assurance Corporation.



Gavin R Suggett, MA, MSc, FCA, Company Secretary (44). Managing Director of Alliance Trust (Finance) Limited.



Brian H Thomson (non-executive) (70). Chairman and joint managing director of D C Thomson & Co and a director of a number of other companies.



Christopher Blake, MA, PhD, FRSE, (non-executive) (62). Chairman of William Low & Co, of Glenrothes Development Corporation and of ICAEM.



Douglas F Hurdle, CBE, (non-executive) (65). Deputy Chairman of the Scottish Development Agency, and a director of other companies including the Clydesdale Bank and Grampian Television.

*Member of Audit Committee

Profile of The Alliance Trust

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 £593m. 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 to 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 of Europe, America and the Far East. 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

A significant part 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

A. T. Savings Limited, a member of The Alliance Trust group of companies, manages the Alliance Personal Equity Plan Scheme and Dividend and Savings Investment Scheme.

Chairman's Statement

Earnings

We have seen continued growth in dividends, many at rates well in excess of expectations and from virtually all sections of the portfolio, to give an earnings increase of more than 12% over the previous year which still included high-yielding US bond interest.

Prospects for further growth are favourable with more and more companies in all the major markets recognising the importance to shareholders of a progressive dividend policy. This is an aspect on which we concentrate in our own investment selection and one which has acquired added significance as a result of the tax changes in the 1988 budget.

Dividends

It is recommended that the final dividend be increased by 14.1% from 19.50p to 22.25p. This, together with the increased interim already paid, will give a total of 31.00p, an increase of 12.7%. Dividend growth will have averaged 18% pa, compared with 5% UK inflation, over the last five years.

Capital

My statement last year was written in the shadow of the dramatic rise and fall of the stock market in 1987. I then expressed our confidence in long term and well diversified equity investment and we have seen a gradual return to normality in financial markets, albeit somewhat hesitant, as the year has progressed.

Net asset value per share has increased by 14.6% taking us back to the high ground we had reached in April 1987 before the exceptional summer months which ended with the landslide in October 1987. This is broadly in line with the FTA All-Share Index and mirrors experience in most international markets. The US dollar, virtually unchanged over the twelve months, has not been a negative influence on our valuation as in the previous two years.

We commenced the year with cash reserves of 9% and steady reinvestment throughout the period had reduced the figure to under 3% at the year end. This action has been prompted by the expectation that the new US administration would, in fact, address the deficit problems and that this would lead to a recovery of confidence in the dollar and greater international financial stability. Events so far have justified this view while in addition the apparent transformation in the climate of East/West relations, is potentially a hugely beneficial development. In neither case can the eventual outcome be relied upon but they both provide a more encouraging background against which to view shorter term influences on stock market valuations.

As so often these influences appear contradictory. High-interest rate policies, being pursued in most developed countries and designed to reduce inflation, will restrain consumer demand and the growth of corporate profits. The social and political benefits of an effective 'soft landing' depend on just the right degree of economic deceleration and skilful anticipation of when to release the brakes. This has not proved easy to judge in the past and we must be prepared for some uncertainty and nervousness. Meanwhile cash worldwide available for investment is at very high levels and equity valuations are not excessive, particularly when compared to those of alternative assets such as real estate. We have seen demonstrated in recent weeks how rapidly prices can move in narrow stock markets under the influence of this cash. Having regard to all these factors we believe that a posture of comparatively full investment in good quality international equities is appropriate.

Stockholders

The note on the facing page on our Personal Equity Plan and Savings Schemes has, of necessity, been written immediately prior to the Budget. It is quite possible that changes to existing regulations affecting these Schemes will be made with a view to encouraging participation and, if so, these will be intimated to existing participants when their effect is known. For the present we are very pleased with the sustained level of response to the Schemes and believe that the underlying attributes of the Trusts, among which are an excellent record of capital and income growth, prudent diversification and outstanding economy of cost are of widening appeal.

Board and Management

Mr Brian Thomson, who recently passed his seventieth birthday, will retire from the Board at the conclusion of the annual general meeting. Since 1961 the Company has benefited greatly from Mr Thomson's sound judgment of what was right for the Alliance Trust and I, as chairman for only the last five of his many years of service as a director, can attest to the unfailing charm and courtesy with which his wisdom has been translated into advice and encouragement.

Our regret at his retirement from the Board is tempered by having found in Mr Andrew F Thomson, a director of D C Thomson & Co Ltd, a man of similar attributes, who will adapt his other business commitments to the pattern of weekly meetings with the management of the Company which is the regular practice of our Board. We are delighted that Mr Andrew Thomson has agreed to stand for election as a director.

The aggregate sum available for directors' fees was last reviewed in 1985 and a resolution will be put to the annual general meeting to increase that aggregate from £31,000 to £40,000.

I had an opportunity, at the centenary meeting last year, to speak at greater length about our management and staff but I would not want to let this first year of the next hundred go past without confirming to our stockholders the strong sense of teamwork that is so evident here in Reform Street, and the air of competent, confident and responsible management which governs our affairs.

Robert Smith

10th March 1989

Financial Highlights

FOR THE YEAR TO 31st JANUARY 1989

	1989	1988
Income		
Gross revenue	£23.7m	£21.7m
Earnings per ordinary stock unit	31.27p	27.85p
Dividend per ordinary stock unit	31.00p	27.50p
Capital		
Total assets less current liabilities	£593.3m	£518.2m
Net asset value per ordinary stock unit	£11.70	£10.21
Distribution		
Proportion of total assets overseas	45.6%	48.7%

Personal Equity Plan and Savings Schemes

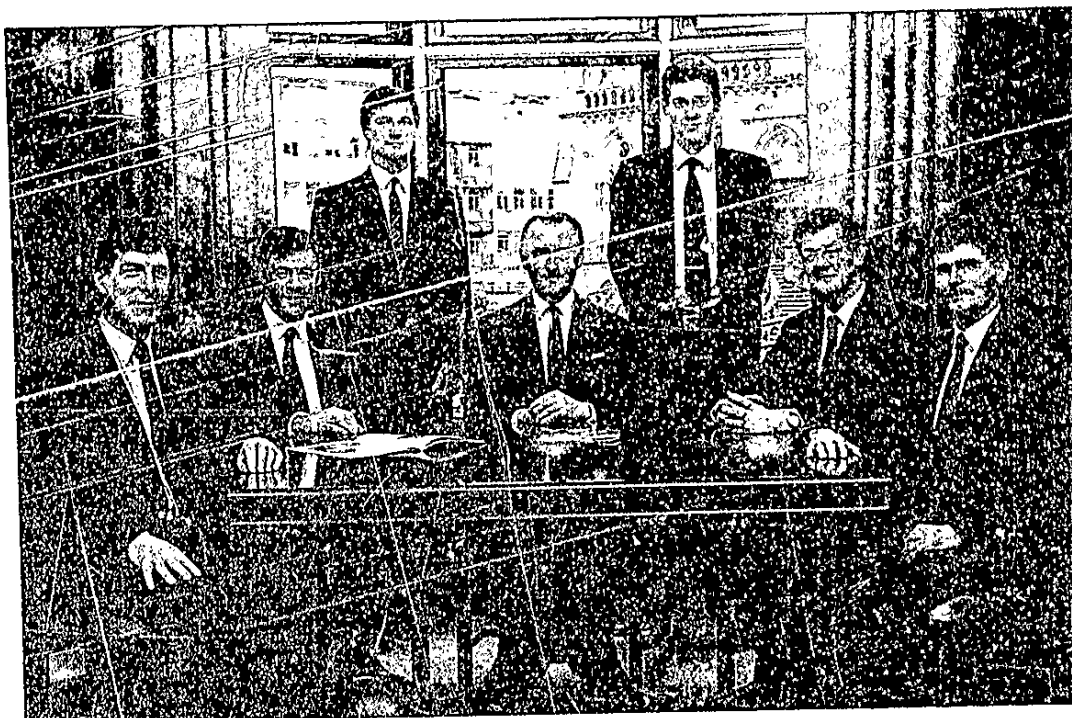
PEP The Alliance Personal Equity Plan has been experiencing strong demand against the national trend. Our 1988 Plans exceeded those of 1987 by 49% and, with a strong renewal rate we look forward to a further increase in 1989.

During the year we increased the maximum subscription to £3,000 per annum, and widened the selection of shares enabling participants to build a balanced portfolio of investments of their own choice. At the time of writing £540, or 25% of the annual subscription if greater, is invested in the Alliance Trust stock and the remainder may be invested in the ordinary shares of up to three companies chosen from a list of over 100.

The Alliance PEP is designed to be as economical as possible, giving even standard rate tax payers the opportunity to benefit from the tax-free status of equity investments held through a PEP. No initial or annual charges are made to participants and this has attracted much favourable press comment. This is welcome as we have chosen to avoid heavy advertising and marketing costs and rely mainly on recommendation to spread the word. We receive frequent requests from participants, stockholders and professional people for information and forms to be sent to their friends, colleagues and clients which we shall continue to encourage.

Savings Scheme The Savings Scheme enables participants to purchase stock units without limit in The Alliance Trust simply and cheaply by the subscription of lump sums, regular standing orders and by the reinvestment of dividends. Despite the general lack of interest in stock markets throughout 1988, the number of participants has continued to expand with a particular trend towards regular saving, where market averaging enables stockholders to ride the gyrations of the market, acquiring proportionately more stock units when prices are lower.

Management and Information Both Schemes are managed by our subsidiary, A. T. Savings Limited (shortly to change its name to Alliance Trust Savings Limited), using the services of our own staff and computer. This company is a member of The Financial Intermediaries, Managers and Brokers Regulatory Association and information on either Scheme is readily available from the Company Secretary at our registered office.



L to R (Standing) R N Thomson (Computer Manager), M Strachan (Assistant Portfolio Manager),
(Seated) W G Lindsay (Manager), G R Suggitt (Company Secretary), L Bolton (Managing Director),
A M W Young (Manager) and R Hadden (Manager).

Management Review

Summary Investment Changes £'000

	UK	North America	Japan	Europe	Other	Total
Valuation at 31/1/88	248,941	178,802	22,088	8,276	13,065	471,172
Purchases	44,029	10,371	19,358	6,425	3,827	84,010
Sales	(18,821)	(22,698)	(7,725)	(129)	(4,692)	(54,065)
Appreciation	40,794	21,619	3,149	2,690	7,357	75,609
Valuation at 31/1/89	314,943	188,094	36,870	17,262	19,557	576,726

The table above shows the net additions, referred to elsewhere in the report, to portfolios in the UK, Europe and the Far East. These have been funded by a further small disinvestment in the US and by a reduction in liquidity. Also evident in capital appreciation is the effect of the recovery in confidence in all markets over the year.

While the US remains an important area for us, offering very worthwhile investment advantages, we have reduced our portfolio there by nearly £40m in the last 3 years. The effect of this, and of relative dividend and currency movements, has been to reduce our US earnings from 44% of total earnings to 25% in the year just ended.

United Kingdom

It was only during the last month of our financial year that the UK market showed any significant performance. Having been ahead only 1.2% at the end of calendar 1988, the FTA Index was up 15.2% over our year as a whole and, despite the late attempt to catch up, lagged most world markets throughout the year. Partly, this was because it fell less sharply during October 1987 but, more particularly, because of problems peculiar to Britain. It gradually became apparent that while the economy survived October 1987 better than most forecasters had expected the protective injection of liquidity into the system, which



British Vita PLC. Investment £2,615,000

Protective clothing containing the company's fibre insulation.

Principal activities are the manufacture of cellular foams, synthetic fibre fillings, specialised and coated fabrics, and a range of consumer products.

appeared to be a prudent action at the time, had brought its own problems. It was finally acknowledged that the economy was tending to overheat, following the lower interest rates in the spring to control the pound and the 1988 budget tax cuts, and that the growth of imports amounted to a serious problem. The resulting level of base rates, presently at 13%, inevitably stifled the stock market.

However, the historically high levels of cash which continued to build up in many insurance and pension funds supported share prices. The first evidence that the Chancellor's restraints could be proving effective,

Fisons PLC. Investment £2,055,000

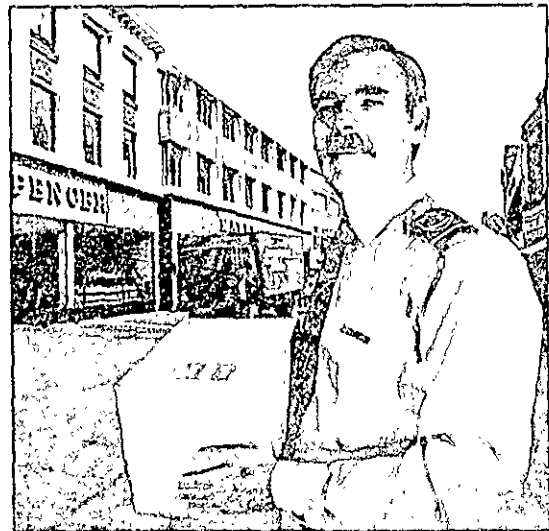
The Intal asthma inhaler has been successfully marketed in the USA.

The group manufactures and supplies a wide range of pharmaceuticals and veterinary, garden and agricultural products. Interests also include the manufacture of laboratory, scientific and diagnostic equipment.

Security Services PLC. Investment £5,939,000

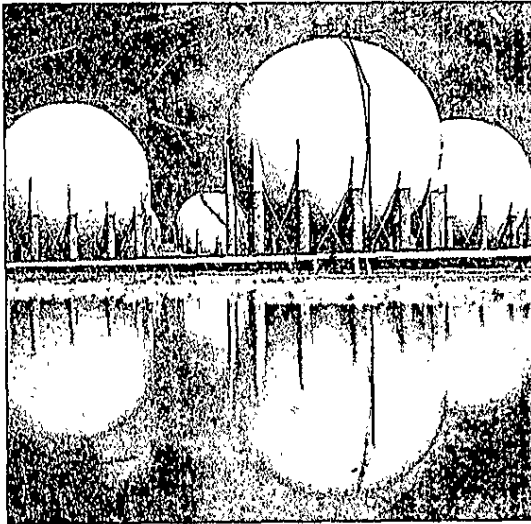
Parcel delivery is an important part of the group's business.

Activities encompass the carrying of cash and valuables, and the provision of security guards and patrols, express parcel services, electronic surveillance and mobile communications.



together with some better recent performance from Wall Street and the US dollar, led to the rally in January the intensity of which was out of proportion to the amount of net cash actually invested. The supply of new stock has been modest. Demands for cash from the government for privatisations can comfortably be met from institutional cash flow and the national debt looks set to decline over the next few years as the government continues to run a surplus on its budget. Companies' need for new cash is now largely to make cash bids for others, while bids for overseas companies have been balanced by foreign bids for UK companies.

The performance of our defensively structured UK equity portfolio proved to be satisfactory throughout the year, marginally outperforming the market during both its ups and its downs and activity in the portfolio has concentrated primarily on larger stocks. £25.2m was invested, the bulk in the second half, taking advantage of the depressed phases in the market which occurred from time to time, notably following bad balance of payments news.



British Petroleum Co PLC. Investment **£8,147,000**

*Gas storage at the Alliance Refinery, Louisiana.**

One of the world's largest international oil and natural resource groups. Other activities include chemicals, minerals and nutrition.

**It is interesting to note that the Alliance Trust gave its name to oil bearing sands in Louisiana close to this refinery.*

Significant new holdings were established in BTR, Guinness, Standard & Chartered and Fisons. Major additions were made to the UK oil and gas sector through BP and British Gas, to Barclays, Lloyds and Royal banks and to BAT Industries.

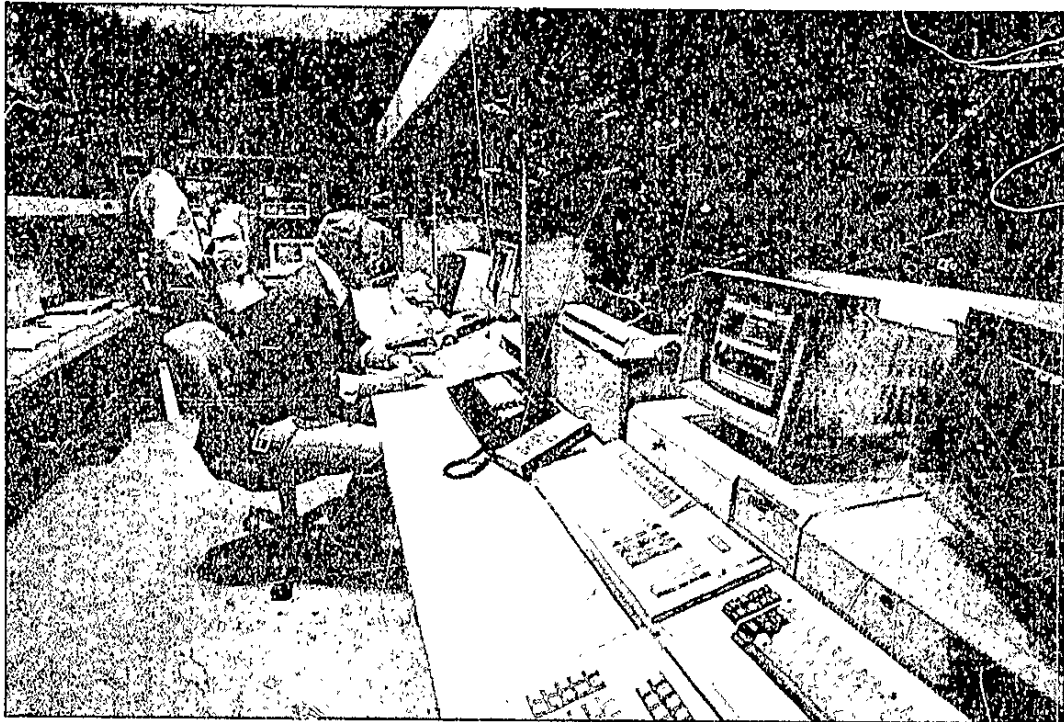
Reductions in the weightings in the life insurance, property and building sectors were made while the stores sector saw the replacement of any remaining weaker situations with those with asset backing or special features. Takeover activity this year has been concentrated on some large companies such as Plessey. In total, seven of our holdings have received bids, the outcomes of some of which are unknown at the year end.

We remain cautious in our approach to the UK economy and to the market over the coming months. Inflationary pressures have yet to ease in response to tighter monetary policy and the inflation rate itself is expected to exceed 8% early in 1989 but should fall away later in the year. The balance of payments deficit should show some improvement but the prospect of a 'soft landing' is by no means certain. Although the amount of cash which has built up in the institutions' hands is large, the outlook for companies' profits is mixed at this stage of the cycle; the combination of higher wage settlements and weaker productivity improvements will put margins under significant pressure in many companies. The valuation of the UK market continues, however, to be reasonable relative to other world markets. Dividends from UK companies grew by 16% during our year, matching the rate of profits growth while the outlook for 1989/90 is for a further increase of around 10% despite the doubts surrounding the economy. Our stance therefore of being fairly fully invested but with a defensive bias appears an appropriate response to the strong opposing forces affecting the outlook for share prices in the UK.

United States

Although short term interest rates rose throughout the year, the US economy in 1988 grew by a remarkable 3.8% or 4.2% adjusted for the effects of the drought. Nearly 4m new jobs have been created and, with unemployment down to 5.1% and capacity utilisation now at very high levels, overheating and the control of inflation remain the Federal Reserve Board's main preoccupation.

In view of the exceptionally buoyant economy, estimates of company earnings have been revised upwards and now show a gain of over 20% year-on-year. This, together with a very high level of takeover activity and repurchases by companies of their own shares, which removed \$200bn of US equities last



State Street Boston Corp. Investment **£2,320,000**

Computer facilities play a vital role in the custodial business.

Based in Massachusetts, this bank holding company provides commercial banking services and is the nation's leading mutual fund custodian.

year, has supported a 16% gain in the S & P 500 Index. Our portfolio, due to a low exposure to takeover and cyclical stocks, marginally underperformed the Index after three years of outperformance. We expect the economy to slow down in the current year and our high exposure to growth stocks should stand us in good stead.

Individual holdings which performed well, recording gains of approximately 30% over the year, include Charming Shoppes, Ford, Melville, Merck, Sysco, Unocal, Walgreen, Woolworth and Farmers Group, a very successful long term holding which was acquired by BAT Industries. Substantial gains were realised on the sale of a third of our large Philip Morris holding and partial sales of DeLuxe, Premier Industrial and Tandy and the disposal of seven others.

Among many new holdings added to the portfolio are AAR, Equifax, Laidlaw Transportation, Safety Kleen, Shawmut National, Sonoco and UNUM. We increased our exposure to the industrial sector through

Wal-Mart Stores Inc. Investment **£6,592,000**

Promotion of domestic goods is a growing trend.

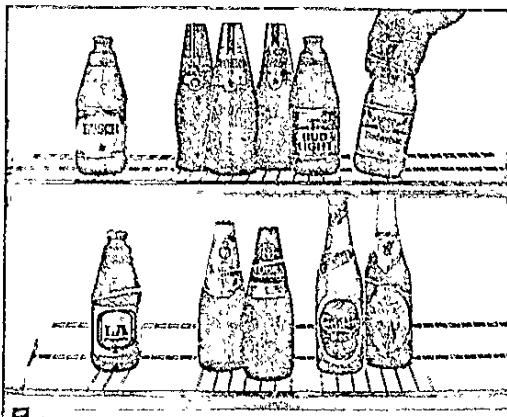
A leading discount retailer operating in the Southern, Southwestern and Midwestern states of the USA.



Anheuser-Busch Cos Inc. Investment **£1,049,000**

The beer product range.

The largest US brewer with internationally known brand names such as Budweiser and Michelob. Food activities include bakery products and snacks.



additional purchases of Emerson Electric, General Electric, Grainger and Nalco, and took advantage of relative weakness to add to existing growth stocks.

The new administration appointed by President Bush is very experienced and the dollar and stock market have, so far, reacted favourably. An early move to tackle the massive deficit incurred by the insolvent savings and loan institutions is a hopeful portent for action on the budget and trade deficits.

If the economy continues to grow, albeit at a more modest pace, and without a further substantial rise in inflation and interest rates, then any stock market weakness should be limited. Support will come from further rises in company earnings, continued corporate activity and stock repurchase programmes. In addition high domestic institutional cash levels and a lack of selling by private individuals and overseas shareholders, whose holdings are at historically very low levels, is a positive influence. However in the short term at least inflationary fears, reflected in upward pressure on interest rates, are dominant.

Far East

The Japanese market performed strongly over the year rising by 29%. The currency was little changed against sterling but after substantial fluctuations closed marginally weaker against the dollar. Economic growth remained strong and GNP rose by 5% in real terms. Leading the way was personal consumption boosted by rising real disposable earnings, higher levels of employment and tax cuts. Capital investment was also very strong benefiting from improving corporate profits, low interest rates and high capacity utilisation and encouraged by the tightening of the labour market. Despite the high growth inflation remained subdued, helped by low cost imports, while the trade surplus, a mixed blessing, remains stubbornly high.

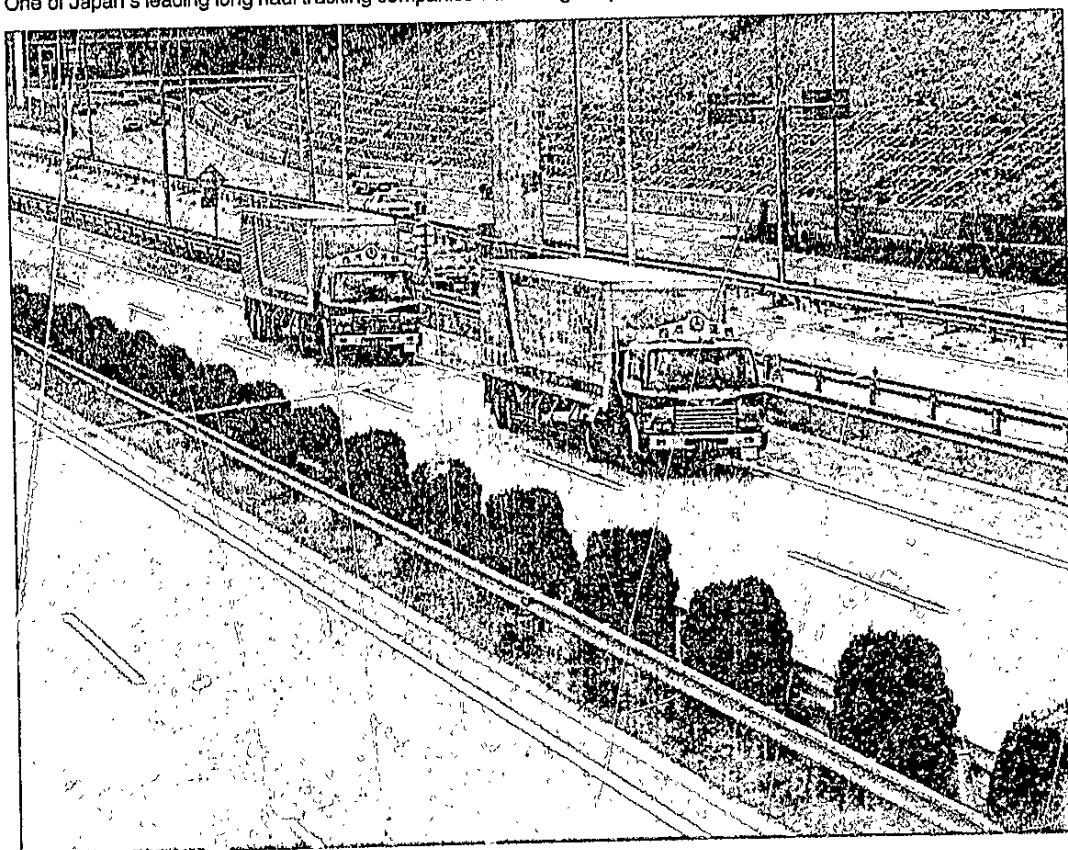
The passing of Emperor Hirohito marks the end of the post war era and has concentrated thought on the future which sees Japan approaching the 21st century with a maturing manufacturing base, underdeveloped service, housing and leisure facilities and an ageing population.

Against this background we have increased our Japanese proportion by investing £11.6m in areas geared to improving living standards. New holdings included the leading department store Mitsukoshi, Japan Air Lines and two trading houses Mitsubishi Corp and Sumitomo Corp. We returned to the financial sector with purchases of Nomura Securities and Sumitomo Bank and in anticipation of improved conditions in the regions bought Okumura Gumi, an Osaka-based construction firm.

Seino Transportation Co Ltd. Investment **£1,049,000**

Road haulage continues to increase in Japan.

One of Japan's leading long haul trucking companies with a large exposure to the Tokyo metropolitan area.



We took advantage of the very strong year end rally to reduce our exposure to Hong Kong. Earlier in the year we added to our holding in Dairy Farm. Elsewhere in the Far East we added to Sime Darby in Malaysia and entered Thailand for the first time through a locally run closed-end fund. In Australia we took profits in the retail group Coles Myer and took a new holding in Brambles, the transportation group.

The Asia Pacific region remains an attractive area for long term investment. Japan will continue to be the cornerstone of our exposure with attractive opportunities being thrown up by redevelopment, deregulation and changing life styles. We continue to look for opportunities within the emerging markets and despite its current domestic economic difficulties Australia contains some excellent companies with growing businesses worldwide.

Europe

We continued to increase our exposure to European companies, investing £6.3m during the course of the year. The expectations for growth from European economies were not optimistic at the beginning of 1988. However, the recovery of the dollar helped the competitiveness of trade, and the worldwide investment boom which has boosted capital goods has resulted in strikingly good real growth. German GDP rose by almost 3½%, for example, reversing several years of dullness and compares with forecasts a year ago of not much over 1%.



Gehe AG. Investment £559,000

Pharmacists receive regular deliveries from the company.

One of Germany's largest wholesalers of pharmaceutical products. Also supplies office products, and factory and warehouse equipment on a mail order basis.

After a generally poor performance for the previous year or two, European markets in most instances showed good returns and our stocks did well against their local markets. A particular feature has been the amount of takeover speculation, as well as the hopes for genuine investment opportunities arising from the prospect of EEC harmonisation in 1992. By no means all of the changes arising will necessarily benefit the profits of companies, however, and indeed it may be that some of the companies best able to exploit the opportunities of the single market lie in the UK, as do many of the most exposed takeover candidates.

In Germany we concentrated primarily on growth companies but also in situations where rationalisation is beginning to take effect. We introduced several new holdings: Schering, Allianz, Hoesch and Henkel along with several new holdings in smaller companies while adding to existing holdings such as Gehe, Mannesmann and Bayer. Our first exposure to Sweden was made through Pharmacia, the international health care company. We have taken a holding in the Spanish electrical utility, Endesa, on its privatisation and in Nestlé following the opening up of the registered shares to foreigners.

There are many good companies in Europe and it is our intention gradually to expand our European weighting as suitable opportunities arise.

Finance, Banking and Savings Schemes

Alliance Trust (Finance) Limited saw a small decline in profits due to the low level of interest rates prevailing at the beginning of 1988 and the low levels of new business written in the previous year. During 1989 the company has benefited from the general rise in interest rates and a strong investment demand from industry. During the year we formed two further subsidiaries to facilitate the controlled expansion of the lease portfolio without compromising our very strict credit criteria. The benefits of higher investment and higher interest rates should show through in future years' profits.

A. T. Savings Limited, our PEP and Savings Scheme management company, and a subsidiary of Alliance Trust (Finance) Limited, is proving a unique and valuable vehicle for the development of savings schemes for our existing and potential shareholders. During the first two years of operation, the costs have been recovered from revenue and the company is in a strong position to expand its client base.

Forty Largest Equity Investments

Company	Value £'000	Main Activity	Country of Incorporation
Shell Transport & Trading	19,530	Oil	UK
Philip Morris	12,461	Tobacco	USA
British Telecommunications	12,138	Telephone utility	UK
British Petroleum	8,147	Oil	UK
Beecham Group	7,842	Health care	UK
Johnson & Johnson	7,684	Health care	USA
Dun & Bradstreet	7,488	Business services	USA
Pacific Telesis	6,781	Telephone utility	USA
Wal-Mart Stores	6,592	Discount stores	USA
British Gas	6,445	Gas utility	UK
BAT Industries	6,405	Tobacco	UK
Slough Estates	6,336	Property	UK
Barclays	6,302	Banking	UK
Security Services	5,939	Security	UK
US West	5,797	Telephone utility	USA
BellSouth	5,704	Telephone utility	USA
Abbott Laboratories	5,492	Health care	USA
Morton Thiokol	5,449	Chemicals	USA
Merck	5,379	Pharmaceuticals	USA
Humana	5,256	Hospital management	USA
Stakis	5,150	Leisure	UK
PepsiCo	4,939	Food manufacturing	USA
Rentokil Group	4,885	Pest control	UK
Unilever	4,833	Food manufacturing	UK
Standard Chartered	4,787	Banking	UK
Lloyds Bank	4,719	Banking	UK
National Westminster Bank	4,714	Banking	UK
Reckitt & Coiman	4,699	Food manufacturing	UK
Great Universal Stores	4,680	Mail order shopping	UK
Wolverhampton & Dudley Breweries	4,580	Brewing	UK
Scottish & Newcastle Breweries	4,264	Brewing	UK
International Business Machines	4,262	Business equipment	USA
ASDA Group	4,227	Food retailing	UK
Legal & General	4,221	Insurance	UK
General Electric	4,162	Electrical equipment	UK
General Accident	4,161	Insurance	UK
Trusthouse Forte	4,155	Leisure	UK
BICC	4,196	Electrical	UK
Scottish National Trust Income	4,028	Investment trust	UK
Marks & Spencer	4,008	Multiple stores	UK

The above investments represent 42.6% of the Company's total equity holdings excluding the investments in related companies.

Notice of Meeting

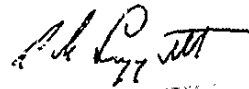
NOTICE IS HEREBY GIVEN that the One Hundred and First annual general meeting of the Company will be held at MEADOW HOUSE, 64 REFORM STREET, DUNDEE, on Friday, 14th April 1989, at 12.30 pm for the following purposes:

Ordinary business

1. To receive the Report of the Directors and the Accounts for the year ended 31st January 1989.
2. To declare dividends.
3. To elect Mr Andrew F Thomson as a director.
4. To re-elect Mr Lyndon Bolton as a director.
5. To re-appoint Peat Marwick McLintock as auditors and to authorise the directors to determine their remuneration.

Special business

6. To consider and, if thought fit, pass the following ordinary resolution:
'That in terms of Article 84 of the Company's Articles of Association the directors' fees in aggregate be fixed at a sum not exceeding £40,000 for the year commencing 1st February 1989 and annually thereafter unless and until the Company in general meeting shall otherwise determine.'



By order of the Board

G R Suggett Secretary

Dundee, 21st March 1989

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 21st April will be posted on 19th April to stockholders on the register on 23rd March.

Report of the Directors

The directors present their report and the accounts for the year ended 31st January 1989.

Dividends The Board recommends a final dividend of 22.25p per ordinary stock unit which together with the interim of 8.75p paid on 14th October 1988 makes a total of 31.00p for the year, compared with 27.5p for the previous year. The surplus of £135,000 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 1988 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 Mr George A Stout retired as a director on 15th April 1988, and Mr Brian H Thomson, having reached the age of 70, retires from the Board on 14th April 1989. Otherwise the directors throughout the year have been as listed below. Mr Lyndon Bolton, whose service agreement covering his employment as a director can be terminated by the Company at three years notice, retires by rotation from the Board and, being eligible, offers himself for re-election. A resolution to elect Mr Andrew F Thomson as a director will be submitted at the annual general meeting.

No director had any interest during the year in any significant contract with the Company or any subsidiary.

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

		31st January 1989	1st February 1988
Christopher Blake	Beneficial	1,308	1,305
Lyndon Bolton	Beneficial	2,052	875
Douglas F Hardie	Beneficial	807	800
Sir Robert Smith	Beneficial	1,000	800
Gavin R Suggett	Beneficial	412	412
	As trustee	2,053	799
Brian H Thomson	Beneficial	29,264	29,264
	As trustee	144,353	144,353

Mr Gavin R Suggett, as trustee, acquired a further holding of 83 ordinary stock units on 28th February 1989, as a result of participation in the Dividend and Savings Investment Scheme operated by A.T. Savings Limited. Apart from this transaction there has been no change in these holdings between 1st February and 10th March 1989.

The aggregate sum available for directors' fees was last reviewed in 1985 and a resolution will be put to the annual general meeting to increase that aggregate from £31,000 to £40,000.

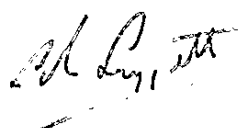
Stockholders The Company has received notification of the following holdings of more than 5% of its ordinary share capital:

	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 15,607.

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, 10th March 1989



By order of the Board
G R Suggett 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 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 1989 and of its 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, 10th March 1989

PEAT MARWICK McLINTOCK,
Chartered Accountants
Royal Exchange,
Dundee DD1 1DZ

Peat Marwick McLintock

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 1989

Income from Assets	Income from Investments	Notes	1989		1988	
			£'000 Listed	£'000 Unlisted	£'000 Listed	£'000 Unlisted
	UK dividends		11,300	27	8,804	35
	UK interest		56	20	57	17
	Overseas dividends		6,871	42	6,425	36
	Overseas interest		247	14	2,354	22
	Dividends from subsidiary		—	350	—	360
	Interest on loan to subsidiary		—	289	—	334
			<u>18,474</u>	<u>742</u>	<u>17,640</u>	<u>804</u>
	Total Income from Investments			19,216		18,444
	Other Income					
	Interest received	2	4,152		2,995	
	Mineral royalties		228		172	
	Underwriting commission		62		92	
				4,442		3,259
	Total Revenue			23,658		21,703
Expenses, Interest and Taxation	Management expenses		927		977	
	Audit fee		9		9	
	Administration expenses	1	936		986	
	Interest payable	2	80		94	
				1,016		1,080
	Revenue before Taxation			22,642		20,623
	Taxation	3		6,815		6,517
	Revenue after Taxation			15,827		14,106
Dividends	Preference Stock			68		68
				15,759		14,038
	Ordinary Stock:					
	Interim paid - 8.75p (8.0p)		4,410		4,032	
	Final proposed -22.25p (19.5p)		<u>11,214</u>		<u>9,828</u>	
				15,624		13,860
Revenue Reserve	Surplus revenue for the year			135		178
	Balance at 1st February 1988			8,153		7,975
	Balance at 31st January 1989			8,288		8,153
	Earnings per ordinary stock unit	4		31.27p		27.85p

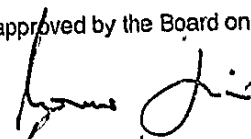
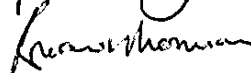
The notes on pages 18 to 21 form part of these accounts.

Balance Sheet

AS AT 31st JANUARY 1989

	Notes	1989 £'000	1988 £'000
Fixed Assets			
Investments	5		
Listed in the UK		300,607	234,075
Listed overseas		259,701	220,443
Unlisted		3,293	3,529
Subsidiary company	6	13,125	13,125
		576,726	471,172
Real Estate, Mineral Rights and Office Premises	7	172	205
Current Assets			
Debtors			
Sales for future settlement		1,989	555
Other debtors		—	4
Taxation recoverable		541	1,431
Cash and short-term deposits		35,728	62,088
		38,258	64,078
Creditors: due within one year			
Amount owed to subsidiary		—	2
Purchases for future settlement		9,517	5,458
Other creditors		52	171
Taxation		1,002	1,736
Dividends		11,248	9,862
		21,819	17,229
Net Current Assets		16,439	46,849
Total Assets Less Current Liabilities		593,337	518,226
Creditors: due after one year			
4½% Debenture stock 1956 or after		1,648	1,648
Capital and Reserves			
Called up Share Capital			
Authorised, issued and fully paid			
Preference stock	8	2,200	2,200
50,400,000 25p ordinary stock units		12,600	12,600
Reserves			
Capital reserves	9	568,601	493,625
Revenue reserve		8,288	8,153
		589,489	514,378
		593,337	518,226

The financial statements on pages 15 to 22 were approved by the Board on 10th March 1989 and are signed on its behalf by:

 Robert Smith Director
 Brian H Thomson Director

Notes on the Accounts

Administration Expenses

Administration expenses include:

	1989 £	1988 £
Directors' remuneration:		
Fees	23,041	23,125
Management salaries	91,010	89,293
Pension contributions	31,237	46,800
	<u>145,288</u>	<u>159,218</u>

In addition fees totalling £5,760 (£5,784) 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	8,750
Highest paid director		55,830	46,173
Other directors	£0-£5,000	1	—
	£5,001-£10,000	3	(4)
	£35,001-£40,000	1	(1)

The Company employs 27 (25) persons excluding the directors. The costs, which are shared with The Second Alliance Trust PLC and Alliance Trust (Finance) Limited, are salaries £203,000 (£188,000), pension contributions £95,000 (£93,000) and social security contributions £26,000 (£21,000).

Lease rentals paid during the year were £67,000 (£43,000). Future rental commitments net of finance charges under finance leases total £34,000 (£30,000) within one year and £33,000 (£30,000) thereafter.

2. Interest

	£'000	£'000
Interest payable on loans repayable within 5 years	6	20
Interest on all other loans	<u>74</u>	<u>74</u>
	<u>80</u>	<u>94</u>
Interest received includes interest from related companies	<u>2</u>	<u>200</u>

3. Taxation on Revenue

Corporation tax at 35%	3,870	4,012
Less: relief for overseas tax	<u>1,017</u>	<u>1,001</u>
	<u>2,853</u>	<u>3,011</u>
Overseas tax	1,017	1,001
Tax credit on franked investment income	<u>2,945</u>	<u>2,505</u>
	<u>6,815</u>	<u>6,517</u>

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.

4. Earnings per Stock Unit

The earnings per ordinary stock unit are based on revenue available to ordinary stockholders of £15,759,000 (£14,038,000) 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 1988	134,784	155,683	4,488	8,400	303,355
Unrealised appreciation	99,291	64,760	(959)	4,725	167,817
Valuation at 31st January 1988	234,075	220,443	3,529	13,125	471,172
Movements during year					84,010
Purchases—cost	44,029	39,981	—	—	(54,065)
Sales—proceeds	(18,303)	(34,916)	(846)	—	21,644
—profit	6,000	15,523	121	—	
Increase in unrealised appreciation	34,806	18,670	489	—	53,965
Valuation at 31st January 1989	300,607	259,701	3,293	13,125	576,726

6. 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, Alliance Trust (Finance) No. 4 Limited, Alliance Trust (Finance) No. 10 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, Alliance Trust (Finance) No. 4 Limited and Alliance Trust (Finance) No. 10 Limited whose main activities are finance leasing in the UK, and A. T. Savings Limited, whose main activity is the management of personal equity plans and savings schemes, 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 directors consider that the value at 31st January 1989 was not materially different from that used at 31st January 1988 and have valued the Company's interests as follows:

	1989 £'000	1988 £'000
600,000 ordinary shares of £1 each	10,125	10,125
£3m floating rate subordinated loan notes	3,000	3,000
	<u>13,125</u>	<u>13,125</u>

7. Real Estate, Mineral Rights and Office Premises

Cost at 31st January 1988
Sale of mineral rights
Cost at 31st January 1989

205	205
<u>33</u>	<u>—</u>
<u>172</u>	<u>205</u>

8. Preference Stock

	1989 £'000	1988 £'000
4 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
	<u>2,200</u>	<u>2,200</u>

9. Capital Reserves

	Note	Realised £'000	Unrealised £'000	Total £'000
Capital reserves at 31st January 1988		325,808	167,817	493,625
Profit realised	5	21,644	—	21,644
Increase in unrealised appreciation	5	—	53,965	53,965
Losses on currency transactions		(675)	—	(675)
Profit on sale of mineral rights		26	—	26
Premiums from mineral rights		16	—	16
Capital reserves at 31st January 1989		<u>346,819</u>	<u>221,782</u>	<u>568,601</u>

10. Contingent Liabilities

There are contingent liabilities at 31st January of £252,000 (£495,000) in respect of commitments to subscribe for shares. An amount of £936,000 (£2,017,000) representing the final instalments payable on certain of the Company's holdings has been included in creditors and added to the cost and market valuation of investments listed in the UK.

**11. 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

	1989 £'000	1988 £'000
Rentals from finance leasing	12,792	13,481
Gross earnings on finance leases	2,946	3,233
Net interest paid	(671)	(907)
Expenses	(147)	(134)
Profit on ordinary activities before taxation	2,128	2,192
Taxation	(739)	(752)
Profit on ordinary activities after taxation	1,389	1,440
Minority interest	(50)	(74)
Profit for the financial year	1,339	1,366
Dividend	(350)	(350)
Retained profit	989	1,016

Balance Sheets as at 31st January

	Group		Company	
	1989 £'000	1988 £'000	1989 £'000	1988 £'000
Investment in subsidiary companies	—	—	586	551
Finance lease receivables	31,748	32,522	20,503	22,691
Net current liabilities	(10,757)	(11,786)	(1,441)	(3,818)
	20,991	20,736	19,648	19,424
Subordinated loan notes	(4,000)	(4,000)	(4,000)	(4,000)
Deferred taxation	(4,713)	(5,463)	(3,191)	(3,918)
Minority interest	(120)	(104)	—	—
	12,156	11,169	12,457	11,506
Capital and reserves	12,158	11,169	12,457	11,506

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 1989, those of Alliance Trust (Finance) No. 4 Limited for the period from 5th April 1988 to 30th April 1988, those of Secdee Leasing Limited for the year to 31st July 1988, those of Alliance Trust (Finance) No. 10 Limited for the period from 11th March 1988 to 31st October 1988 and those of A.T. Savings Limited for the year to 31st December 1988. For commercial reasons the accounting dates of the Company's subsidiaries 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. 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 deferred taxation at 35% on the excess of the investment in finance leases over the corresponding value for tax purposes.

Source and Application of Funds

FOR THE YEAR ENDED 31st JANUARY 1989

Source of Funds	1989 £'000	1988 £'000
Revenue before taxation	22,642	20,623
Net sale of investments	—	10,163
Sale of mineral rights	59	—
Premiums from mineral rights	16	37
	22,717	30,823
Application of Funds		
Dividends paid	14,306	12,920
Net purchase of investments	29,945	—
Taxation paid and suffered	6,659	6,720
Depreciation of foreign currency balances	675	2,562
	51,585	22,202
Total increase/(decrease) in liquidity	(28,868)	8,621
Decrease/(increase) in amount owed to subsidiary	2	(2)
Increase/(decrease) in debtors	1,430	(1,209)
Decrease/(increase) in creditors	(3,940)	(3,718)
Increase/(decrease) in cash and short-term deposits	(26,360)	13,550
	(28,868)	8,621

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
1980	150.5	9.1	5.2	10.33	10.00	279.4
1981	174.7	10.0	5.7	11.24	10.50	327.7
1982	211.4	10.5	5.9	11.63	11.25	400.5
1983	291.8	11.7	6.5	12.70	12.30	560.1
1984	355.0	13.0	6.9	13.73	13.50	685.4
1985	444.5	15.5	8.9	17.65	17.25	874.4
1986	457.9	17.5	10.5	20.91	20.75	901.0
1987	576.4	20.5	13.0	25.79	25.00	1,135.9
1988	518.2	21.7	14.0	27.85	27.50	1,020.6
1989	593.3	23.7	15.8	31.27	31.00	1,169.6

Financial Calendar 1989

Announcements

Final dividend and year-end results
Report and Accounts sent to stockholders
Interim results

10th March
21st March
11th August

Meetings

Annual general meeting

14th April

Dividends and Interest

Ordinary and preference stocks final
Ordinary and preference stocks interim
Debenture stock

21st April
13th October
15th May and 11th November

Classification of Investments

Classification		UK	North America	Japan	Europe	Other	Total 1989	Total 1988
		%	%	%	%	%	%	%
Equities (including Convertibles*)	Capital Goods	6.3	2.8	1.4	0.8	0.2	11.5	9.6
	Aerospace	—	0.8	—	—	—	0.8	0.8
	Building and Construction	0.8	—	0.3	—	0.2	1.3	1.0
	Electrical and Electronics	3.2	1.4	0.6	0.3	—	5.5	5.1
	Engineering	1.5	—	0.1	0.2	—	1.8	1.5
	Metals and Metal Forming	0.1	—	—	0.2	—	0.3	0.2
	Motors	0.3	0.5	0.3	—	—	1.1	0.8
	Other Industrial Materials	0.4	0.1	0.1	0.1	—	0.7	0.2
	Consumer Goods	18.9	12.6	1.8	1.5	1.0	35.8	34.6
	Brewers and Distillers	4.1	0.2	—	—	—	4.3	3.4
	Food Manufacturing	1.0	0.8	0.1	0.4	0.2	2.5	2.1
	Food Retailing	1.5	0.1	—	—	0.3	1.9	2.0
	Health and Household Products	2.8	4.3	0.3	0.4	—	7.6	7.5
	Leisure	3.1	0.1	0.3	—	—	3.5	2.7
	Paper and Packaging	0.6	0.2	—	—	—	0.8	0.8
	Printing and Publishing	1.2	1.7	0.2	0.1	—	3.2	3.7
	Stores	3.2	3.1	0.9	0.6	0.5	8.3	8.1
	Textiles	0.3	—	—	—	—	0.3	0.5
	Tobaccos	1.1	2.1	—	—	—	3.2	3.4
	Other Groups	12.3	14.0	1.4	0.5	1.8	30.0	28.7
	Chemicals	1.8	2.1	0.1	0.3	0.4	4.7	4.4
	Hospitals and Hospital Services	—	0.9	—	—	—	0.9	0.9
	Office Equipment	—	1.8	0.4	—	—	2.2	2.7
	Oil and Oil Service	5.9	2.3	—	—	—	8.2	7.9
	Public Utilities	2.4	5.7	—	0.2	0.1	8.4	8.6
	Transport	0.6	0.1	0.5	—	0.3	1.5	0.8
	Miscellaneous	1.6	1.1	0.4	—	1.0	4.1	3.4
	Financial	14.6	2.1	1.6	0.1	0.3	18.7	16.8
	Banks and Finance	4.5	1.4	0.2	0.1	0.1	6.3	4.4
	Insurance	3.5	0.7	0.1	—	—	4.3	5.3
	Investment Trusts	2.0	—	0.8	—	0.2	3.0	2.4
	Property	2.9	—	—	—	—	2.9	2.6
	Miscellaneous	1.7	—	0.5	—	—	2.2	2.1
Total Equities		52.1	31.5	6.2	2.9	3.3	96.0	89.7
Fixed Interest	Preference and Loan Stocks	1.0	0.2	—	—	—	1.2	1.3
Total Investments		53.1	31.7	6.2	2.9	3.3	97.2	91.0
Other Net Assets		1.3	0.6	0.5	0.2	0.2	2.8	9.0
Total Assets (less Current Liabilities)	1989 £593.3m	54.4	32.3	6.7	3.1	3.5	100.0	
	1988 £518.2m	51.3	35.5	8.9	1.8	2.5		100.0

*Convertibles represent 1.2% (0.6%)