

The Baillie Gifford Japan Trust PLC
Annual Report and Accounts 31 August 2008



100 YEARS OF
INVESTING
1908-2008

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Illustration: Hakuro-Jo (White Egret) Castle at Himeji

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your ordinary shares in The Baillie Gifford Japan Trust PLC, please forward this document and the accompanying voting form as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

Net asset value per share	(18.2%)
Share price	(23.0%)
Benchmark	(7.8%)

Company Summary

Baillie Gifford Japan's objective is to pursue long term capital growth principally through investment in medium to smaller sized Japanese companies.

Investment Policy

The Baillie Gifford Japan Trust aims to achieve long term capital growth principally through investment in medium to smaller sized Japanese companies which are believed to have above average prospects for growth, although it invests in larger companies when considered appropriate.

Further details of the Company's investment policy are given in the Directors' Report.

Benchmark

The portfolio benchmark against which performance is measured is the TOPIX in sterling terms.

Management Details

Baillie Gifford & Co are appointed as investment managers and secretaries to the Company. The management contract can be terminated on twelve months' notice.

Capital Structure

At the year end the Company's share capital consisted of 61,935,000 fully paid ordinary shares of 5p each. The Company currently has powers to buy back shares at a discount to net asset value per share (NAV) as well as to issue shares/sell treasury shares at a premium to NAV.

Management Fee

Baillie Gifford & Co's annual remuneration is 1.0% of the net assets of the Company attributable to its shareholders, calculated on a quarterly basis.

Savings Vehicles

Baillie Gifford Japan shares can be held through a variety of savings vehicles (see inside back cover for details).

AIC

The Company is a member of the Association of Investment Companies.

Continuance Vote

The Company's Articles of Association give shareholders the right to vote annually at the Annual General Meeting on whether to continue the Company.

Notes

None of the views expressed in this document should be construed as advice to buy or sell a particular investment. Investment trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Services Authority.

Year's Summary

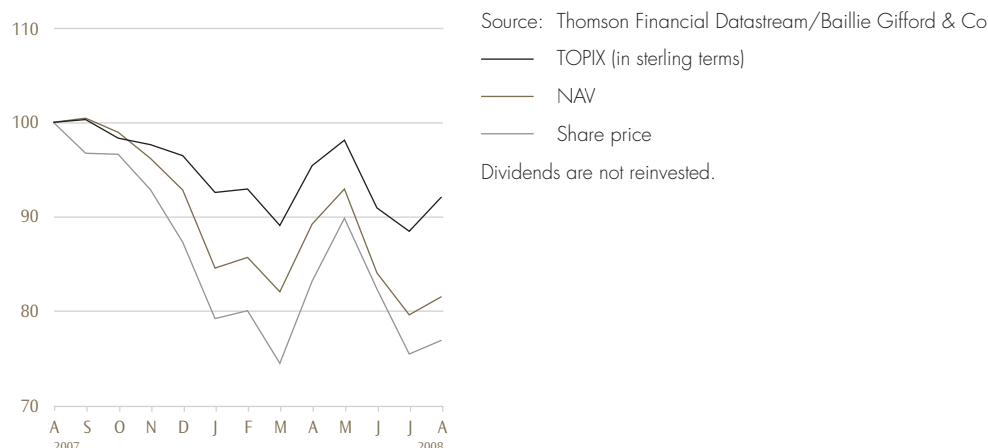
	31 August 2008	31 August 2007	% change
Total assets (before deduction of bank loans)	£138.2m	£163.1m	
Bank loans	£26.8m	£26.9m	
Equity shareholders' funds	£111.4m	£136.2m	
Net asset value per share	179.9p	219.9p	(18.2)
Share price	160.0p	207.8p	(23.0)
TOPIX (in sterling terms)			(7.8)
Yen/sterling exchange rate	197.9	233.81	18.1
Earnings per ordinary share	0.40p	(0.52p)	
Total expense ratio	1.17%	1.16%	
Discount	(11.1%)	(5.5%)	

	Year to 31 August 2008		Year to 31 August 2007	
Year's high and low	High	Low	High	Low
Net asset value per share	224.0p	165.6p	247.9p	205.4p
Share price	207.8p	142.3p	248.0p	199.8p
Premium/(discount)	(2.8%)	(19.0%)	3.2%	(9.2%)

	31 August 2008	31 August 2007
Return per ordinary share		
Revenue	0.40p	(0.52p)
Capital	(40.40p)	(18.06p)
Total	(40.00p)	(18.58p)

One Year Performance

(figures rebased to 100 at 31 August 2007)



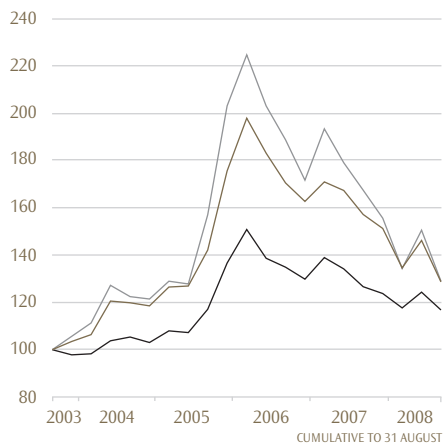
Past performance is no guarantee of future performance.

Five Year Summary

The following charts indicate how an investment in Baillie Gifford Japan has performed relative to its benchmark and its underlying net asset value over the five year period to 31 August 2008.

5 Year Performance

(figures rebased to 100 at 31 August 2003)



Source: Thomson Financial Datastream/
Baillie Gifford & Co

- Share price
- NAV
- TOPIX (in sterling terms)

Dividends are not reinvested.

Premium/(Discount) to Net Asset Value

(plotted on a monthly basis)



Source: Thomson Financial Datastream/
Baillie Gifford & Co

- Baillie Gifford Japan premium/(discount)

The premium/(discount) is the difference between Baillie Gifford Japan's quoted share price and its underlying net asset value.

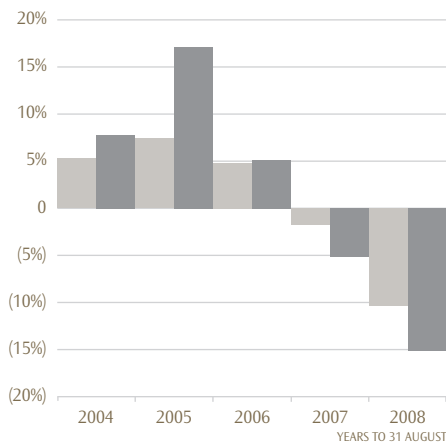
Annual Change in Net Asset Value and Share Price



Source: Thomson Financial Datastream/
Baillie Gifford & Co

- NAV return
- Share price return

Annual Change in Net Asset Value and Share Price relative to the TOPIX (in sterling terms)



Source: Thomson Financial Datastream/
Baillie Gifford & Co

- NAV return
- Share price return

Past performance is no guarantee of future performance.

Ten Year Record

Capital

At 31 August	Total assets £'000	Bank loans £'000	Equity shareholders' funds £'000	Net asset value per share p	Share price p	Discount † %
1998	68,581	9,305	59,276	89.8	72.5	19.3
1999	153,759	23,255	130,504	204.7	176.0	14.0
2000	191,733	26,425	165,308	259.3	251.0	3.2
2001	106,554	11,007	95,547	149.9	134.3	10.4
2002	92,677	14,176	78,501	124.0	105.0	15.3
2003	106,088	19,506	86,582	139.8	124.0	11.3
2004	124,590	20,767	103,823	167.6	151.8	9.4
2005	148,613	25,515	123,098	198.8	194.8	2.0
2006	175,022	27,343	147,679	238.4	234.3	1.7
2007	163,115	26,945	136,170	219.9	207.8	5.5
2008	138,168	26,775	111,393	179.9	160.0	11.1

† Discount is the difference between Baillie Gifford Japan's quoted share price and its underlying net asset value.

Revenue

Year to 31 August	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share p	Total expense ratio ¶ %
1998	834	(205)	(0.31)	1.15
1999	1,149	(325)	(0.49)	1.21
2000	866	(1,597)	(2.51)	1.34
2001	866	(771)	(1.21)	1.05
2002	808	(477)	(0.75)	1.21
2003	797	(357)	(0.57)	1.09
2004	945	(579)	(0.93)	1.26
2005	1,398	(356)	(0.58)	1.23
2006	1,728	(593)	(0.96)	1.20
2007	1,844	(326)	(0.52)	1.16
2008	2,195	246	0.40	1.17

¶ Ratio of total operating costs to average shareholders' funds.

‡ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities held as a substitute for cash divided by shareholders' funds.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds.

Gearing Ratios

Actual gearing ‡	Potential gearing §
112	116
109	118
109	116
103	112
114	118
122	123
109	120
120	121
115	119
118	120
115	124

Cumulative Performance

At 31 August	Net asset value per share	Share price	Benchmark ‡‡	TOPIX	Tokyo Stock Exchange Second Section Index
1998	100	100	100	100	100
1999	228	243	200	176	269
2000	289	346	235	208	315
2001	167	185	156	137	217
2002	138	145	127	110	185
2003	156	171	138	116	214
2004	187	209	158	122	305
2005	221	269	176	136	375
2006	266	323	202	157	377
2007	245	287	190	147	313
2008	200	221	175	135	253
Compound annual returns					
5 year	5.2%	5.2%	4.9%	3.1%	3.4%
10 year	7.2%	8.2%	5.8%	3.1%	9.7%

‡‡ On 1 September 2003 the Company changed its benchmark from 75% TOPIX/25% Tokyo Stock Exchange Second Section Index to 100% TOPIX. For the purposes of the above table the returns on both benchmarks for their respective periods have been linked to form a single benchmark.

All per share figures prior to 2001 have been restated for the five for one share split in November 2000.

Past performance is no guarantee of future performance.

Chairman's Statement

This was another disappointing period for Japanese equities, and for the Company in particular, as its net asset value per share fell by 18.2% in comparison with a decrease of 7.8% in our benchmark TOPIX index (in sterling terms).

In aggregate stock selection over the year was below par. Further detail on performance during the year can be found in the Managers' Report on pages 10 to 12, including an attribution table showing returns within sectors. At times of challenging performance I believe it is important to remember that the Company is taking a long term view in the investments that it makes. Since the Company's inception in December 1981 NAV total return has been 8.7% p.a., outperforming the total return from TOPIX of 6.9% p.a. by about 1.8% p.a. after all expenses (in sterling terms). Over the last decade the Company's NAV total return has been 7.2% p.a., outperforming the total return from TOPIX of 4.2% p.a. by about 3.0% p.a. after all expenses (in sterling terms). For the reference of UK based investors this return has comfortably exceeded that of the FTSE 100 which has delivered 3.9% p.a. over the same time period. In recognition of the Company's good longer term performance and consistent investment approach the Company won the Investment Week Best Japan Trust of the Year award for the third year running in 2007.

The Company's investment income increased by 19%, once again reflecting efforts by Japanese companies to pay higher dividends. There was less stock lending activity this past year so revenue from this source continued to fall. Following the rulings in various court cases during the year, VAT is no longer payable on management fees. As a result, the Company recovered £294,000 of VAT including related interest. Further information is included in note 4 to the accounts.

Expenses fell, mainly owing to the effect of falling net assets on the management fee. Overall, revenue gain per share was 0.40p. However, excluding the one-time impact of VAT recovery the account would have been negative. No dividend is possible as the revenue reserve remains in deficit.

Borrowing and Hedging

Net gearing amounted to 18% of net assets at the start of the Company's year, reflecting the Board's and Managers' positive view on the longer term prospects for corporate earnings and consequently share prices.

During the year, gross borrowings were reduced from ¥6.3bn to ¥5.3bn as two ¥500m facilities were repaid, with net gearing amounting to 15% of net assets at 31 August 2008. Subsequent to the year end, the ¥500m facility maturing in November 2008 and the ¥1bn facility maturing in October 2010 were repaid in order to keep gross borrowings within agreed limits following sharp downturns in the market. The next debt maturity is scheduled for August 2010. Even after these latest repayments, the Company retains a strong liquidity position, holding ¥1.6bn of cash, and benefits from a long debt maturity profile. Since the year end, net gearing has remained at around 15% of net assets. With the weighted average cost of the Company's debt at 1.9% we believe borrowing to invest in Japanese equities remains a sensible long term strategy. The Japanese Yen has strengthened against sterling, from around ¥230/£ to around ¥175/£ now. Your Board will continue to monitor the situation, but it sees no compelling reason to hedge the currency exposure at current exchange rates.

Past performance is no guarantee of future performance.

Share Capital

Shareholders voted at the Annual General Meeting in 2007 to renew the Company's ability to buy back up to 14.99% of its outstanding shares. This authority can be used to enhance the net asset value of the Company by buying back shares at a discount to net asset value and then either cancelling them or holding up to 10% in treasury. The Company did not exercise its buy-back powers during the year. However, your Board believes that it is important that the Company retains this power and hence, at the Annual General Meeting, it is seeking to renew this facility. My fellow Directors and I intend to support the above proposal and I recommend that shareholders do likewise. The Company also has authority to issue/resell 5% of its issued share capital on a non-pre-emptive basis. Shares would only be issued/resold at a premium to net asset value per share, thereby enhancing net asset value per share for existing shareholders. Furthermore, the Directors will only seek to utilise this authority if they believe that it will be in the best interests of the Company to do so.

Articles of Association

The Directors are proposing that the existing Articles of Association are replaced with new articles which reflect the changes in law brought about by the implementation of the Companies Act 2006. The proposed changes are detailed in the Appendix to the Notice of Annual General Meeting on page 50. The Directors are of the view that these changes will not have a significant impact on the running of the Company and should be regarded by our shareholders as dealing with an administrative matter.

Outlook

The outlook for the Japanese and global economies has become increasingly uncertain over the past few months as the problems within the western banking sector have unfolded, with the last few days being particularly fraught. The domestic Japanese economy has clearly slowed, and it may be that its record period of expansion is over. Nevertheless, corporate and personal balance sheets remain sound, which should help to ameliorate any economic weakness.

Meanwhile, Japanese companies have been taking advantage of the combination of strong balance sheets and weak stock markets to conduct significant buybacks and increase overseas mergers and acquisitions. Also, dividends have continued to be raised significantly. Given the key importance of capital allocation in determining returns for shareholders the continued focus on this area is to be welcomed.

Following the sudden resignation of Yasuo Fukuda after a short period in office, Taro Aso has taken over as Japan's Prime Minister. Given the unsettled political background recently, the benchmark for improvement is not demanding. The Board continues to monitor the political situation but is not of the view that any portfolio changes are necessary at present. There have been various encouraging changes in political attitudes to shareholder value. These have included the Meti Corporate Value Study Group updating their guidelines on takeover defence mechanisms to make it explicit that any such measures must not be used to entrench management at the expense of shareholders.



Overall, there is a tension between the extremely uncertain, and to some frightening, global economic outlook, and the valuation of the market, which seems cheap either relative to history or in absolute terms. Taking this into account, the Board is of the view that the Japanese equities sector is an attractive area for investment and current valuations offer sound opportunities for long term investors.

Continuance Vote

Our shareholders have the right to vote annually on whether the Company should continue in business, and will again have the opportunity at the Annual General Meeting to be held on 10 December 2008.

Last year the Company received support for its continuance from 99.8% of those voting. Your Directors are of the opinion that the fundamentals of corporate Japan remain attractive. The Board expects that the Managers will continue to take a long term view and will remain able to find many interesting investment candidates.

Given the favourable outlook, I and my fellow Directors intend to vote our own shareholdings in favour of the resolution and hope that shareholders will feel disposed to do likewise.

Board Changes

Having reached the age of 70 and having been Chairman since the Company's inception, now seems a sensible time to retire. I will be stepping down from the Board at the conclusion of the Company's 2008 Annual General Meeting in December. The Board has agreed that I will be replaced as Chairman by Richard Barfield, who has been a Director of the Company since 1997. I am confident that the Company will benefit from his stewardship. In turn, Richard Barfield will relinquish his position as Chairman of the Company's Audit Committee, to be replaced by Nick Bannerman. I am pleased to report that my fellow Directors recently agreed to appoint Martin Paling to the Board with effect from 1 November 2008. As required,

his appointment falls to be formally ratified by shareholders at the Annual General Meeting of the Company.

It has been a privilege to chair the Company for so many years. There have been some extreme highs and lows over the period since 1981 and whilst I would have liked to have anticipated them a bit more perceptively, the overall return over the 27 years has been reasonable. I continue to believe that Japan offers attractive opportunities for long term global investors. Consequently I intend to retain my interest in Japan for some time yet, and I am sure Richard Barfield, the Board and Baillie Gifford will take the Company forward to a profitable future.

G Malcolm Murray
14 October 2008

Directors and Management

Members of the Board come from a broad variety of backgrounds. The Board can draw on a very extensive pool of knowledge and experience. Baillie Gifford & Co, a leading UK investment management firm who act as Managers and Secretaries to the Company, have been involved in investment management since 1908.

Directors

1 Malcolm Murray CBE

Malcolm Murray was appointed Chairman on the Company's inception in 1981 and is Chairman of the Nomination Committee. He is a former director and chief general manager of The Scottish Life Assurance Company and was previously investment manager of that company. He has been involved in investment management for over forty years. He is also a member of the Court of Edinburgh University.

2 Nick Bannerman

Nick Bannerman was appointed a Director in 2003. He is brand development director of Kinloch Anderson Ltd, acknowledged leaders in Scottish Tartans and Highland Dress with extensive lifestyle brand licensing in Japan, China, Korea and Taiwan. He is also a Chartered Accountant and former chairman of the Scottish Cashmere Club Ltd.

3 Richard Barfield

Richard Barfield was appointed a Director in 1997. He is the Senior Independent Director and is the Chairman of the Audit Committee. He was formerly chief investment manager of The Standard Life Assurance Company. He is a director of The Merchants Trust plc, The Edinburgh Investment Trust plc, The JP Morgan Fleming Overseas Investment Trust plc and Standard Life Investments Property Income Trust Limited. He is also a member of the Professional Oversight Board.

4 Martin Barrow CBE

Martin Barrow was appointed a Director in 2001. He has extensive knowledge of Asia, having worked there for 35 years for Jardine Matheson, including eight years in Japan. He is a director of Malaysian Airline Systems and Matheson & Co. He was chairman of the Japan Association in the UK in 2001, but the Association has now merged with the Japan Society.

5 Paul Dimond CMG

Paul Dimond was appointed a Director in 2006. In HM Diplomatic Service until 2005, he served for 16 years in Japan, working in both Tokyo and Osaka, and was Commercial Counsellor from 1989 to 1993. He had a senior British public service role in three continents, his last appointment being HM Ambassador to the Philippines. He is chairman of Westminster Gardens Limited, deputy chairman of DAKS Simpson Group plc and DAKS Limited, director of Intralink Limited, vice chairman of the Japan Society and council member, the Royal Overseas League.

All Directors are members of the Nomination and Audit Committees.



Managers and Secretaries

Baillie Gifford Japan is managed by Baillie Gifford & Co, an investment management firm formed in 1927 out of the legal firm Baillie & Gifford, WS, which had been involved in investment management since 1908.

Baillie Gifford are one of the largest investment trust managers in the UK and currently manage eight investment trusts. Baillie Gifford also manage unit trusts and Open Ended Investment Companies, together with investment portfolios on behalf of pension funds, charities and other institutional clients, both in the UK and overseas. Funds under the management or advice of Baillie Gifford total around £40 billion. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 33 partners and a staff of around 550.

The manager of Baillie Gifford Japan is Sarah Whitley, a partner of Baillie Gifford. She is head of a team of 8 people covering the Japanese market and has been involved with Baillie Gifford Japan since 1982. The firm of Baillie Gifford & Co is authorised and regulated by the Financial Services Authority.

Managers' Report

Performance and Portfolio

During a difficult and disappointing year for investment in Japan and other equity markets the Company has underperformed its benchmark index. The Net Asset Value per share fell by 18.2% compared with a 7.8% fall in the TOPIX in sterling terms. Part of the reason for this was the gearing, which exacerbated falls in the market, but the individual stock selection was extremely disappointing and a larger factor in the underperformance.

Since the start of the credit crunch in the summer of 2007 it has been our assessment that Japan would be relatively insulated from its consequences and that the valuations on Japanese companies were already at historic low levels. This view has proved too sanguine, at least in terms of share prices.

Within the portfolio the worst performing sector was Manufacturing and Machinery, with two holdings, Juki and Sumitomo Heavy, accounting for the bulk of the underperformance. This sector seems the most polarised with nearly all the stocks contributing significantly either positively

or negatively. Unfortunately the size of the negative contributions were larger as global concerns weighed heavily and, for Juki, credit tightening in China hit sales.

Another sector impacting performance was Real Estate and Construction. We sold three out of six companies here but the remaining stocks were weak. Rents in Japan have continued to rise and there remains a gap between funding costs and rental yields, but sentiment has been negative and property values have come off their recent peaks.

The best performing sector was Commerce and Services where we hold a variety of companies from golf course operators to large multinational trading companies. Whilst those related to temporary labour, where enforcement of regulations has been tightened, performed poorly others, such as Rakuten the internet retailer and Accordia Golf, benefited from the lack of currency exposure and continued steady growth. In shipping, we switched into Nippon Yusen from Mitsui OSK as the average length of contract was longer and profits should be

less volatile and sold Fullcast which was hit by regulatory change.

We took a small holding in a perpetual bank bond as our confidence that the Japanese banking system is solvent, if dull, is strong and the yield gap between government bonds and corporate bonds seemed unjustified. Recent events have led to this gap widening but we intend to hold on. The currency exposure is hedged so that it is equivalent to the equity holdings in the portfolio. Overall the number of equity holdings was reduced by two.

Economic Outlook

The long steady economic expansion that began in 2002 now seems to be over and GDP contracted in the second quarter of 2008, with further quarterly declines likely in the next year. However, the outlook for Japan seems less uncertain than other major economies. Although the global credit crunch has had some effect the solvency of the banking system is strong and recent deals by Japanese banks and brokers demonstrate this. Consumers in Japan have

Portfolio Performance Attribution for the year to 31 August 2008

Computed relative to the benchmark (TOPIX in sterling terms) with net income reinvested.

Portfolio breakdown	Benchmark asset allocation		Baillie Gifford Japan asset allocation		Performance*		Contribution to relative return	Contribution attributable to:	
	01.09.07	31.08.08	01.09.07	31.08.08	BG Japan	Benchmark		Stock selection	Asset allocation
	%	%	%	%	%	%	%	%	%
Commerce and services	11.1	11.8	28.3	32.0	(1.2)	(1.3)	1.2	0.2	1.0
Chemicals and other materials	14.6	13.4	12.7	11.0	(7.4)	(14.2)	1.1	1.0	0.1
Pharmaceuticals and food	7.0	7.9	7.4	7.3	15.8	12.2	0.2	0.2	–
Electricals and electronics	14.3	14.1	20.9	19.7	(10.9)	(8.0)	(0.7)	(0.7)	–
Financials	16.9	15.8	10.6	12.3	(18.2)	(12.2)	(0.9)	(0.8)	(0.1)
Retail	3.0	3.3	6.9	5.6	(19.3)	4.7	(1.2)	(1.5)	0.3
Information, communication and utilities	9.1	10.4	2.8	3.9	(21.4)	8.7	(1.9)	(1.0)	(0.9)
Real estate and construction	4.8	4.3	7.7	3.7	(51.7)	(19.6)	(2.8)	(2.6)	(0.2)
Manufacturing and machinery	19.2	19.0	20.6	17.2	(23.6)	(8.4)	(3.5)	(3.5)	–
Fixed interest	–	–	–	1.7	(6.2)	–	–	–	–
Cash and brokers' balances	–	–	1.8	9.6	18.4	–	1.7	–	1.7
Gearing	–	–	(19.7)	(24.0)	18.1	–	(5.4)	–	(5.4)
Total	100.0	100.0	100.0	100.0	(18.6)	(6.3)	(13.1)	(8.7)	(4.4)

Past performance is no guarantee of future performance.

Source: The WIM Company/Baillie Gifford & Co

Contributions cannot be added together, as they are geometric; for example, to calculate how a return of (18.6%) against a benchmark return of (6.3%) translates into a relative return of (13.1%), divide the portfolio return of 81.4 by the benchmark return of 93.7 and subtract one. In addition, the total contribution figures include a residual element that relates to changes in weightings mid-month, which cannot be attributed to individual sectors. Consequently, the contributions for the individual sectors do not sum to the total contribution figures.

* The above returns are total returns (net income reinvested), calculated on a monthly linked method.

Investment Changes (£'000)

	Valuation at 31 August 2007	Net acquisitions/ (disposals)	Appreciation/ (depreciation)	Valuation at 31 August 2008
Equities:				
Electricals and electronics	28,537	(3,449)	(3,132)	21,956
Manufacturing and machinery	28,134	(1,993)	(6,944)	19,197
Retail	9,418	(1,605)	(1,517)	6,296
Commerce and services	38,567	(1,903)	(902)	35,762
Pharmaceuticals and food	10,162	(3,088)	1,093	8,167
Real estate and construction	10,555	(1,414)	(4,996)	4,145
Financials	14,542	2,552	(3,318)	13,776
Information, communication and utilities	3,813	1,493	(947)	4,359
Chemicals and other materials	17,269	(3,669)	(1,360)	12,240
Total equity investments	160,997	(13,076)	(22,023)	125,898
Fixed interest	–	1,985	(134)	1,851
Total investments	160,997	(11,091)	(22,157)	127,749
Net liquid assets	2,118	6,414	1,887	10,419
Total assets	163,115	(4,677)	(20,270)	138,168
Bank loans	(26,945)	4,923	(4,753)	(26,775)
Equity shareholders' funds	136,170	246	(25,023)	111,393

paid down debt significantly during the expansion and gearing in the corporate sector has also been significantly reduced. As the world deleverages this should see some comparative advantage to Japan as it has already gone through this process in the past. Nevertheless, we are unlikely to see strong growth.

The economy expanded modestly in 2007, but consumers remain cautious. Inflation has been a shock for Japan, having been absent for so long, but it looks as if the rate may moderate over the next few quarters. Companies have been unable to raise prices until recently, although it seems that this particular corner has been turned and many industries are moving to formula pricing based on input costs which should make the situation easier in the future.

This relatively optimistic view does depend on economic conditions in the rest of the world being no worse than currently expected. It seems sensible to expect that as Japan's problems with excess debt, bad loans and bank insolvency are fresh in the memory, the global trouble will impact less on this major creditor nation.

Corporate Developments within Japan

Despite the impression given by some of the headline stories in the past year, there have been significant improvements in the attitude of companies towards rewarding their shareholders. We think there has been a structural improvement in profit margins

and dividends have been increased again. The current yield on the stock market is 2%, significantly higher than that of government bonds, as companies pay out more of their profits to shareholders. The level of share buy backs is also estimated at 2% of the market value. The authorities' attitude to the introduction of shareholder defence plans, commonly known as poison pills, has evolved significantly and the current guidelines state that they should not be used to defend management's interests at the expense of shareholders. This shift was followed by the first defeat of a defence plan in a shareholder vote.

Profits have clearly peaked in Japan and will fall in the current fiscal year to March 2009 by at least 10%. Companies have not been able to pass on the rise in input prices, the yen has strengthened and consumer demand has been fragile. The first two factors appear to be moderating, although the third is difficult to judge at the moment. However, the improvement in balance sheets made since the last downturn, the higher levels of return and the focus on shareholder interests all mean that there should not be major difficulties for the quoted corporate sector. Several companies are using the current phase of the cycle to restructure their business operations and make them more competitive for the future. Again it is not possible to make forecasts for Japan without encompassing a global view but it does seem clear that Japanese companies are in a stronger position relative to many of their competitors than in the last global downturn.

Outlook

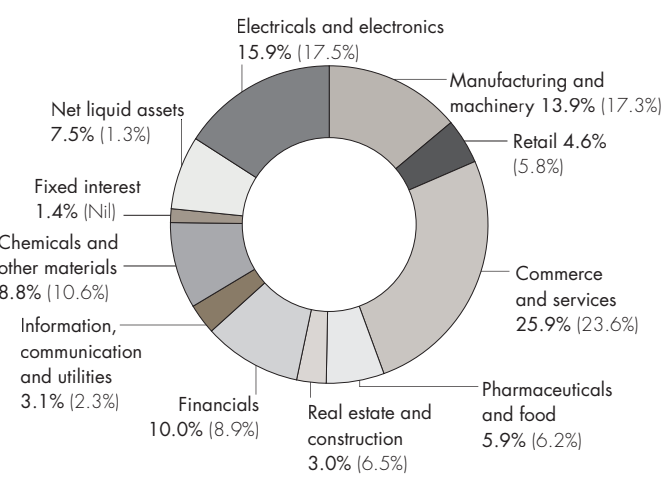
The unprecedented turbulence in recent weeks in the financial sectors of the UK and the US has not been mirrored in Japan. Japanese institutions have been buying distressed assets abroad, confirming the view that their capital position is robust. Whilst the financial sector problems that Japan had in the 1990s and early part of this century were severe, they are recent enough to have induced caution in managers and Japanese banks now appear to be providers of capital to the world. Japanese consumers also have significant savings predominantly held in cash. However, this relative strength does not mean that the outlook for Japan is untroubled. Recent growth has been driven by export demand and a recession in other developed economies seems inevitable. The valuations of the companies though are at extremely low levels, with the stock market yielding over 2%, significantly more than government bonds, and this seems to discount quite a lot of potential bad news. Gearing invested in the market is being reduced, as the global economic environment worsens, although we continue to believe that Japanese equities, particularly those in medium and smaller companies offer good value in the longer term.

Baillie Gifford & Co
14 October 2008

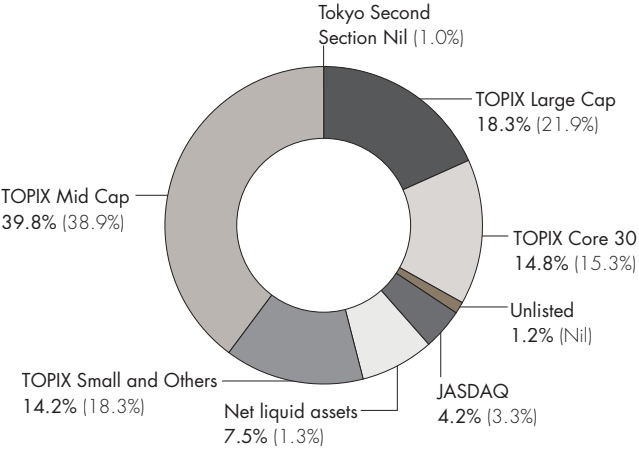
Distribution and Relative Weightings

Distribution of Total Assets

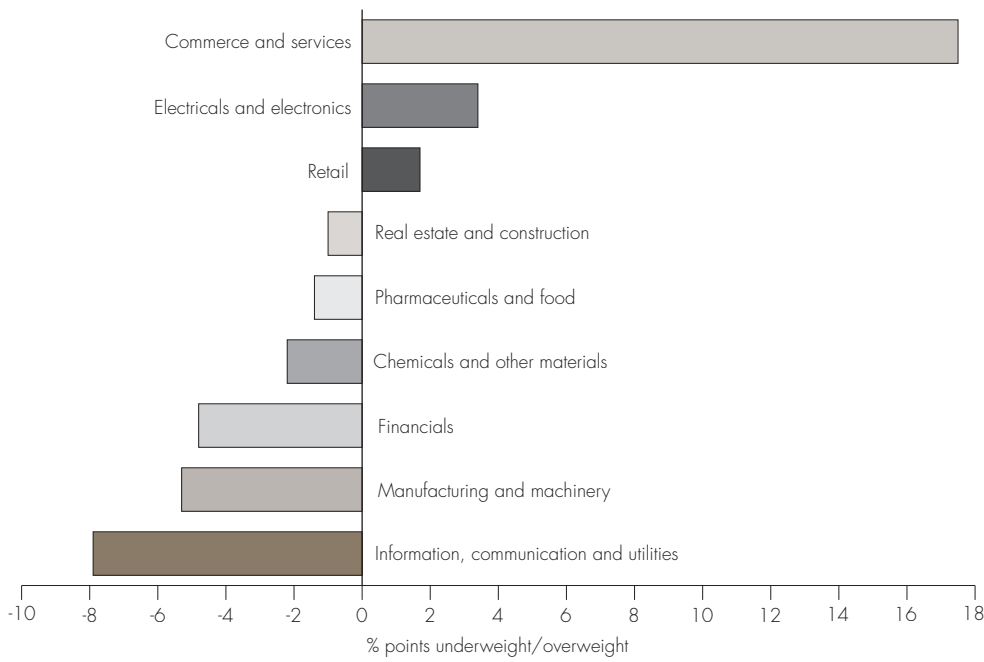
Industry 2008 (2007)



Listings 2008 (2007)



Equity Weightings Relative to Benchmark



Twenty Largest Equity Holdings

Name	Business	2008		2007
		Value £'000	% of total assets	Value £'000
Inpex	Oil and gas producer	4,100	3.0	3,804
Canon	Printers and copiers	4,044	2.9	4,578
East Japan Railway	Tokyo based railway	3,921	2.8	3,521
Modec	Designs and leases offshore oil platforms	3,870	2.8	3,697
Accordia Golf	Golf course owner and operator	3,806	2.8	3,453
Misumi Group	Precision machinery parts distributor	3,764	2.7	3,648
Itochu	Trading conglomerate	3,467	2.5	4,459
Shimadzu	Environmental testing equipment	3,438	2.5	3,379
Rakuten	Internet retailer	3,337	2.4	1,987
KDDI	Mobile telecommunications	3,220	2.3	3,813
Kamigumi	Port operator	3,167	2.3	3,149
USS Company	Second-hand car auctioneer	3,141	2.3	4,065
SMC	Pneumatic control equipment	3,131	2.3	3,607
Mitsubishi UFJ Lease & Finance	Leasing company	3,130	2.3	3,145
Sysmex	Medical equipment	3,086	2.2	2,865
Asahi Glass	LCD, auto and construction glass	3,083	2.2	3,835
Tsumura	Herbal medicines	3,005	2.2	2,058
Sumitomo Mitsui Financial Group	Major bank	2,941	2.1	1,961
Mitsubishi Electric	Industrial electric conglomerate	2,897	2.1	4,180
Aeon Mall	Shopping mall developer	2,810	2.1	2,627
		67,358	48.8	67,831

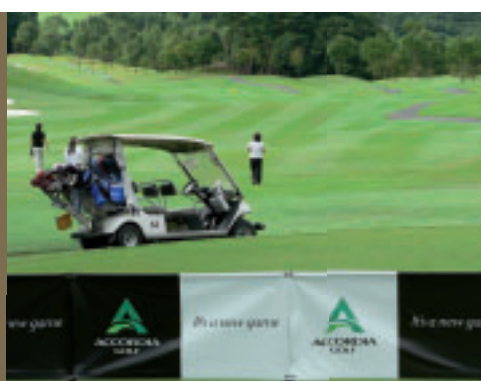
1 Accordia Golf

Branding at an Accordia golf course.

2 East Japan Railway

New in-station retail format.

Review of Investments



1



2

TOP 10 HOLDINGS

Inpex

3.0% of total assets

Inpex Holdings is Japan's largest upstream oil and gas company formed from a merger of Inpex and Teikoku Oil. Production is expected to grow, predominantly from Asian countries although there is a small amount of onshore gas production in Japan. The company is also developing a major LNG field in Australia, Ichthyus, and will build a new import terminal in Japan to import the gas when production starts in 2012. At the moment LNG is priced at a discount to oil, relative to its energy content, and any move towards parity would significantly benefit Inpex in the long term.

Canon

2.9% of total assets

Canon has market leading positions in its three core product areas which include laser printers, copiers, and digital SLR cameras. Its large base of installed office equipment ensures it benefits from the current shift to colour and the recurring profit stream which comes from selling consumables such as toner. In-house production, strong IP, and brand awareness mean its profitability is unmatched among its peers. There is also scope to improve its debt-free balance sheet through continued shareholder returns and mergers and acquisitions. This is one of the most defensive electronics companies and we continue to believe in the long term growth prospects.

East Japan Railway

2.8% of total assets

East Japan Railway operates the largest rail network in the largest conurbation in the world as well as regional railways north of Tokyo. The company is involved in a rolling programme to redevelop its station properties and has been successfully expanding its retail division. The company has successfully introduced contact free pre-paid cards, Suica, allowing it to free up ticket office space and reducing staff numbers required. Higher fuel costs have increased railway usage and the company continues to improve and develop its network. Having paid down significant amounts of debt in the twenty years since privatisation the company is now likely to increase dividends to reflect earnings growth.

Modec

2.8% of total assets

Modec is involved in the design, manufacture and sale of floating production, storage and offloading (FPSO) systems for oil and gas production, as well as their leasing and operation. Modec is the second largest company in this rapidly expanding global market and long term growth is supported by the need to produce oil and gas from deeper oceans. Modec subcontracts all the construction and is therefore able to pass on raw material cost increases. Demand seems likely to remain strong and Modec has just won its largest ever contract from Petrobras in Brazil.

Accordia Golf

2.8% of total assets

Accordia Golf is one of the largest owners of golf courses in Japan, having bought courses which went bankrupt in the aftermath of the 1980s property boom. The Goldman Sachs affiliated company currently owns 127 courses and manages 7. After purchase, the company improves the management of clubs leading to a sustained increase in the number of rounds played as well as higher restaurant and pro-shop revenues. The company also aims to expand the golf market in Japan with its focus on a wider group of players including families and should benefit from the increasing number of retirees in Japan over the next few years. The global credit crunch has increased the availability of golf courses and reduced their acquisition costs and the company aims to speed up purchase, increasing the long term growth prospects.

Misumi

2.7% of total assets

Misumi has a fairly unusual business structure as it acts as an intermediary between a large and diverse group of machinery manufacturers and another broad group of customers. They sell a very large number of products through a catalogue and website. The company also has pioneered a method of standardising products which can then be quickly customised to order, cutting costs and delivery times significantly. The company dominates its sector in Japan and is steadily expanding overseas.

Itochu

2.5% of total assets

Itochu is one of the large Japanese trading companies with a diversified portfolio of businesses around the world. Profit growth has been strong in the past few years as their resource investments in both energy and metals have benefited from the global strength in commodity prices. Typically they own small stakes in a variety of projects and link the producers and the customers. The company also has a strong focus on fashion brands, where their integrated supply chain gives them an advantage. The balance sheet has improved, dividends have risen and earnings are expected to increase again in the current fiscal year.

Shimadzu

2.5% of total assets

Shimadzu is a producer of scientific instruments, such as measuring and analytical equipment, based in Kyoto. They have a strong culture of research, their products are considered technologically advanced and they have the top market share in China in analytical equipment. The products are used in a wide variety of industries, particularly in research and development. Demand in Japan is stagnant but the company is expanding its sales overseas and has reformed its production systems to improve productivity and cut lead times.

Rakuten

2.4% of total assets

Rakuten is Japan's leading e-commerce company through its "Ichiba" online mall which allows businesses of all sizes to sell on the internet. This area is growing very fast and online spending still remains a small part of total retail spending compared with the US market, suggesting that a substantial growth opportunity remains. It also has strong positions in online travel booking and online brokerage. Management, led by the founder-President Mr Mikitani, are dynamic and focussed on continued growth.

KDDI

2.3% of total assets

KDDI is Japan's second largest fixed and mobile telecoms company. It benefits from strong management who focus carefully on satisfying their customers. Since the introduction of mobile number portability (MNP) in Japan the company has been particularly successful at winning market share of high-value customers. Meanwhile the fixed line business should move into profit through restructuring efforts.

NEW HOLDINGS

Keihin

1.4% of total assets

Keihin is an auto parts supplier with a strong link to Honda and particular strength in fuel systems for both cars and motorcycles. It should benefit from the shift from carburettors to fuel injection systems. Over the years the company has managed to achieve very respectable returns on capital and it also benefits from a strong balance sheet with significant net cash.

Kubota

1.2% of total assets

Kubota is the world's fourth largest agricultural machinery manufacturer, specialising in rice growing machinery, and also has the largest global share in mini-excavators. Sales are slow or falling in developed areas of the world but in Asian markets such as Thailand, the mechanisation of agriculture is leading to rapid growth in demand for Kubota's products. Their range of equipment is also uniquely suited to other Asian countries, limiting competition and letting them achieve very high market shares.

Osaka Securities Exchange

1.2% of total assets

Historically derivatives trading in Japan has lagged other markets globally, but the market is now expanding rapidly as the authorities approve the use of more financial products to improve Japan's standing as a global financial centre. The OSE has secured its position as the leading derivatives exchange in Japan after heavy investment in its trading systems. Management are also taking the lead in consolidating the number of Japanese financial exchanges by pursuing a merger with the JASDAQ and the deal should result in significant cost savings.

List of Investments

As at 31 August 2008

Name	Where listed	Business	Value £'000	% of total assets
Electricals and electronics				
Canon	TOPIX Core	Printers and copiers	4,044	
Ibiden	TOPIX Mid	Diesel filters and electronic parts	351	
Iriso Electronics	JASDAQ	Specialist connectors	587	
Mitsubishi Electric	TOPIX Large	Industrial electric conglomerate	2,897	
Murata Manufacturing	TOPIX Large	Ceramic electronic components	1,895	
Ricoh	TOPIX Large	Printers and copiers	2,531	
Shimadzu	TOPIX Mid	Environmental testing equipment	3,438	
Sysmex	TOPIX Mid	Medical equipment	3,086	
Ushio	TOPIX Mid	Specialist lamps and digital cinema equipment	1,639	
Yaskawa Electric	TOPIX Mid	Factory automation	1,488	
			<u>21,956</u>	15.9
Manufacturing and machinery				
Arrk	JASDAQ	Industrial prototyping	333	
Brother Industries	TOPIX Mid	Printers and home office equipment	726	
Juki	TOPIX Small	Sewing machines and electrical equipment	854	
Keihin	TOPIX Mid	Carburettors and fuel injection systems	1,866	
Komatsu	TOPIX Core	Construction and mining machinery	1,427	
Kubota	TOPIX Large	Agricultural machinery	1,605	
Modec	TOPIX Small	Designs and leases offshore oil platforms	3,870	
Sankyo	TOPIX Mid	Pachinko machines	199	
Seiko	TOPIX Small	Watches, lenses and property	977	
Shinko Plantech	TOPIX Small	Industrial plant maintenance	2,033	
SMC	TOPIX Large	Pneumatic control equipment	3,131	
Sumitomo Heavy	TOPIX Mid	Specialist machinery	2,176	
			<u>19,197</u>	13.9
Retail				
Askul	TOPIX Small	Online stationery retailer	804	
Don Quijote	TOPIX Mid	Discount store operator	2,644	
Otsuka Kagu	JASDAQ	Furniture retailer	456	
Yamada Denki	TOPIX Large	Major consumer electronics retailer	2,392	
			<u>6,296</u>	4.6
Commerce and services				
Accordia Golf	TOPIX Small	Golf course owner and operator	3,806	
East Japan Railway	TOPIX Core	Tokyo based railway	3,921	
H.I.S.	TOPIX Small	Discount travel agency	1,553	
Hamakyorex	TOPIX Small	Trucking and warehousing	1,026	
Hitachi High-Technologies	TOPIX Mid	Semiconductor production equipment	2,484	
Itochu	TOPIX Large	Trading conglomerate	3,467	
Kamigumi	TOPIX Mid	Port operator	3,167	
Misumi Group	TOPIX Mid	Precision machinery parts distributor	3,764	
Nippon Yusen KK	TOPIX Mid	Marine transportation	2,395	
Rakuten	JASDAQ	Internet retailer	3,337	
Tempstaff	TOPIX Small	Employment and outsourcing services	1,782	
Tokyu	TOPIX Mid	Railway based conglomerate	1,919	
USS Company	TOPIX Mid	Second-hand car auctioneer	3,141	
			<u>35,762</u>	25.9

Name	Where listed	Business	Value £'000	% of total assets
Pharmaceuticals and food				
Japan Tobacco	TOPIX Core	Tobacco manufacturer	2,580	
Takeda Pharmaceuticals	TOPIX Core	Major pharmaceutical manufacturer	2,582	
Tsumura	TOPIX Mid	Herbal medicines	3,005	
			<u>8,167</u>	5.9
Real estate and construction				
Aeon Mall	TOPIX Mid	Shopping mall developer	2,810	
Japan General Estate	TOPIX Mid	Condominium developer	324	
Tokyo Tatemono	TOPIX Mid	Property leasing and development	1,011	
			<u>4,145</u>	3.0
Financials				
AIOI Insurance	TOPIX Mid	Non-life insurance	2,685	
Funai Zaisan Consultants	Mothers	Advisory services for wealthy Japanese	768	
Japan Asia Investment	JASDAQ	Venture capital company	1,238	
Mitsubishi UFJ Lease & Finance	TOPIX Mid	Leasing company	3,130	
Osaka Securities Exchange	Hercules	Stock exchange	1,604	
SFCG	TOPIX Mid	Provides financial services to small and medium sized companies	1,410	
Sumitomo Mitsui Financial Group	TOPIX Core	Major bank	2,941	
			<u>13,776</u>	10.0
Information, communication and utilities				
KDDI	TOPIX Core	Mobile telecommunications	3,220	
Zenrin	TOPIX Mid	Residential maps and car navigation systems	1,139	
			<u>4,359</u>	3.1
Chemicals and other materials				
Asahi Glass	TOPIX Large	LCD, auto and construction glass	3,083	
Hitachi Chemical	TOPIX Mid	Electronic materials	2,395	
Inpex	TOPIX Large	Oil and gas producer	4,100	
Japan Petroleum Exploration	TOPIX Mid	Oil and gas producer	506	
Ryobi	TOPIX Mid	Aluminium castings	1,036	
Taiheiyo Cement	TOPIX Mid	Domestic and emerging market cement	1,120	
			<u>12,240</u>	8.8
Total equity investments			125,898	91.1
Fixed interest				
MUFG Capital 5.271% 2017 Perp Pref	Singapore	Fixed interest	1,851	1.4
Total investments			127,749	92.5
Net liquid assets			10,419	7.5
Total assets			138,168	100.0
Bank loans			(26,775)	(19.4)
Equity shareholders' funds			111,393	80.6

Directors' Report

The Directors have pleasure in submitting their Annual Report together with the results of the Company for the year to 31 August 2008.

Business Review

Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006. The Company carries on business as an investment trust. In the opinion of the Directors, the Company conducts its affairs so as to enable it to obtain approval by HM Revenue & Customs as an investment trust under section 842 of the Income and Corporation Taxes Act 1988. The Company was approved as an investment trust for the year ended 31 August 2007, subject to matters that may arise from any subsequent enquiry by HM Revenue & Customs into the Company's tax return. The Company will continue to seek approval under section 842 of the Income and Corporation Taxes Act 1988 each year.

Investment Policy

The Baillie Gifford Japan Trust aims to achieve long term capital growth principally through investment in medium and smaller sized Japanese companies which are believed to have above average prospects for growth, although it invests in larger companies when considered appropriate.

The Company's holdings are generally listed in Japan although the portfolio can also include companies listed elsewhere whose business is predominantly in Japan as well as unlisted companies. From time to time, fixed interest holdings, or non equity investments, may be held.

The portfolio is constructed through the identification of individual companies which offer long term growth potential, typically over a three to five year horizon. The portfolio is actively managed and does not seek to track the benchmark, hence a degree of volatility against the index is inevitable.

In constructing the equity portfolio a spread of risk is achieved by diversifying the

portfolio through investment in 40 to 70 holdings. Although sector concentration and the thematic characteristics of the portfolio are carefully monitored, there are no maximum limits to deviation from benchmark stock or sector weights except as imposed by banking covenants on borrowings.

On acquisition, no holding shall exceed 5% of the portfolio at the time of purchase and any holding that as a result of good performance exceeds 5% of the portfolio is subject to particular scrutiny. A holding greater than 5% will only be held where the Managers continue to be convinced of the merits of the investment case.

On acquisition, no more than 15% of the Company's gross assets will be invested in other UK listed investment companies.

The Company may use derivatives which will be principally, but not exclusively, for the purpose of efficient portfolio management (i.e. for the purpose of reducing, transferring or eliminating investment risk in its investments, including protection against currency risks).

The Company recognises the long term advantages of gearing and has a maximum equity gearing level of 30% of shareholders' funds.

Borrowings are invested in securities when it is considered that investment grounds merit the Company taking a geared position. Gearing levels, and the extent of equity gearing, are discussed by the Board and Managers at every Board meeting.

A detailed analysis of the Company's Investment Portfolio is set out on pages 18 and 19 and in the Managers' Report and Review of Investments.

Performance

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives.

The key performance indicators (KPIs) used to measure the progress and performance of the Company over time are established industry measures and are as follows:

- the movement in net asset value per ordinary share compared to the TOPIX in sterling terms;
- the movement in the share price;
- the discount; and
- the total expense ratio.

The one, five and ten year records for the KPIs can be found on pages 2, 3 and 4 respectively.

In addition to the above, the Board considers peer group comparative performance.

Review

A review of the main features of the year and the outlook is contained in the Chairman's Statement and the Managers'

Report on pages 5 to 7 and 10 to 12 respectively.

Principal Risks and Uncertainties

The Company's assets consist mainly of listed securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 20 to the accounts on pages 44 to 47.

Other risks faced by the Company include the following:

Regulatory risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report. Breach of section 842 of the Income and Corporation Taxes Act 1988 could lead to the Company being subject to tax on capital gains². Baillie Gifford's Heads of Business Risk & Internal Audit and Regulatory Risk provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes. The Managers monitor investment movements and the level of forecast income and expenditure to ensure the provisions of section 842 are not breached.

Operational/Financial Risk – failure of the Managers' accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. The Board reviews the Managers' Report on Internal Controls and the reports by other key third party providers are reviewed by the Manager on behalf of the Board.

Financials

The financial highlights for the year under review are as follows: the net asset value per share fell by 18.2% during the year compared to a fall in the benchmark of 7.8% and the discount widened from 5.5% to 11.1%.

Dividend

The accumulated revenue deficit has decreased by £246,000 to £8,473,000. Consequently, the Company is unable to pay a dividend.

Corporate Governance

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the Combined Code on Corporate Governance, published in June 2006, (the "Combined Code") and of the AIC Code of Corporate Governance (the "AIC Code") were applied throughout the financial year. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Financial Reporting Council has confirmed that AIC Member companies who report against the AIC Code and who follow the AIC's Corporate Governance Guide for Investment Companies will be meeting their obligations in relation to the Combined Code and associated disclosure requirements of the Listing Rules.

Compliance

The Company has complied throughout the year under review with the provisions of the Combined Code. The Company has also complied with the AIC Code except that there is no management engagement committee. The annual review of the

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	6	3	6
GM Murray	6	3	6
NAC Bannerman	6	3	6
RA Barfield	6	3	6
M Barrow	5	2	5
PS Dimond	6	3	6

Managers is carried out by the Directors, all of whom are considered to be independent, and the annual review of the terms of the management agreement is carried out by the Audit Committee.

The Board

The Board has overall responsibility for the Company's affairs. It has a number of matters reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy. The Board also reviews the financial statements, investment transactions, revenue budgets and performance. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

The Board currently comprises five Directors, all of whom are non-executive. The executive responsibility for investment management has been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co, and, in the context of a Board comprising only non-executive Directors, there is no chief executive officer. Mr RA Barfield is the Senior Independent Director.

The Directors believe that the Board has a balance of skills and experience that enables it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience, can be found on page 8.

There is an agreed procedure for Directors to seek independent professional advice, if necessary, at the Company's expense.

Terms of Appointment

Letters which specify the terms of appointment, are issued to new Directors. The letters of appointment are available for inspection on request.

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to retire and seek election by shareholders at the next Annual General Meeting. Directors are required to submit themselves for re-election at least once every three years and Directors who have served for more than nine years offer themselves for re-election annually.

Independence of Directors

All the Directors are considered by the Board to be independent of the Managers and free of any business or other relationship which could interfere with the exercise of their independent judgement.

Mr GM Murray and Mr RA Barfield have served on the Board for more than nine years. The Directors recognise the importance of succession planning for company boards and review the Board composition annually. However, the Board is of the view that length of service will not necessarily compromise the independence or contribution of Directors of an investment trust company, where continuity and experience can be a benefit to the Board. The Board concurs with the view expressed in the AIC Code that long serving Directors should not be prevented from being considered independent and that "independence stems from the ability to make those objective decisions that may be in conflict with the interests of management. This in turn is a function of confidence (born of courage and experience), integrity (personal character) and judgement (born of knowledge and experience)".

The Board believes that Mr GM Murray and Mr RA Barfield continue to be independent in character and judgement and their investment management experience adds significantly to the strength of the

Board. Their independence has not been compromised by length of service.

Mr GM Murray will retire from the Board at the conclusion of the Annual General Meeting.

Meetings

There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing, revenue budgets, dividend policy and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively. The table above shows the attendance record for the Board and Committee meetings held during the year. All the Directors attended the Annual General Meeting.

Nomination Committee

The Nomination Committee consists of the whole Board and the Chairman of the Board is the Chairman of the Committee. The Committee meets on an annual basis and on such other times as may be required. The Committee has written terms of reference which include reviewing the Board, identifying and nominating new candidates for appointment to the Board, Board appraisal, succession planning and training. The Committee also considers whether Directors should be recommended for re-election by shareholders. The terms of reference are available on request from the Company and are also on the Company's page on the Managers' website: www.japantrustplc.co.uk.

During the year the Nomination Committee initiated the search for an additional Director. The Committee identified the particular qualities required and drew up a list of potential candidates. Following

Directors' Interests

Name	Nature of interest	Ordinary 5p shares held at	
		31 August 2008	31 August 2007
GM Murray	Beneficial	21,050	21,050
NAC Bannerman	Beneficial	2,715	1,641
RA Barfield	Beneficial	17,380	17,380
M Barrow	—	—	—
PS Dimond	Beneficial	3,066	3,066

The Directors at the year end, and their interests in the Company, were as shown above. There have been no changes intimated in the Directors' interests up to 13 October 2008.

discussion, this was reduced to a short list of preferred candidates who were interviewed by the members of the Nomination Committee. Mr Martin Paling was identified as the preferred candidate due to his extensive investment experience, particularly in Asian markets. He was investment director of Bentley Capital (Europe) Ltd between 1996 and 2008, in charge of the investment process, including asset allocation and fund selection. From 1993 to 1996 he was deputy chief investment officer of Baring Asset Management (Asia) Ltd in Hong Kong, responsible for formulating and directing investment process and managed a number of segregated pension funds in the Asia-Pacific region. Prior to that he worked for James Capel & Co, where he was chief international investment strategist and James Capel (Far East) Ltd in Hong Kong where he directed institutional sales. Previously, he was a partner and head of Singapore/Malaysia sales at Montagu, Loeb, Stanley & Co. He graduated from Cambridge University in 1970. He will be appointed to the Board with effect from 1 November 2008. Given the quality of the candidate identified, it was not necessary to either appoint external search consultants or use open advertising on this occasion.

Performance Evaluation

An appraisal of the Chairman, each Director and a performance evaluation and review of the Board as a whole and its Committees was carried out during the year. Each Director and the Chairman completed a performance evaluation questionnaire and each Director had an interview with the Chairman. The Chairman's appraisal was led by Mr RA Barfield, the Senior Independent Director. The appraisals and evaluations considered, amongst other criteria, the balance of skills of the Board,

the contribution of individual Directors and the overall effectiveness of the Board and its Committees. Following this process it was concluded that the performance of each Director, the Chairman, the Board and its Committees continue to be effective and that each Director and the Chairman remain committed to the Company.

A review of the Chairman's and the other Directors' commitments was carried out and the Board is satisfied that they are capable of devoting sufficient time to the Company. There were no significant changes to the Chairman's other commitments during the year.

Induction and Training

New Directors are provided with an induction programme which is tailored to the particular circumstances of the appointee. Regular briefings are provided on changes in regulatory requirements that could affect the Company and Directors. Directors receive other relevant training as necessary.

Remuneration

As all the Directors are non-executive, the provisions of the Combined Code in respect of Directors' remuneration are not relevant to the Company except to the extent that they relate specifically to non-executive directors. Consequently there is no requirement for a separate Remuneration Committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 28 and 29.

Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The system of internal controls is designed to manage rather than eliminate

risk and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance "Internal Control: Revised Guidance for Directors on the Combined Code". The Directors confirm that they have reviewed the effectiveness of the system and they have procedures in place to review its effectiveness on a regular basis.

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management, have been delegated to the Managers and Secretaries, Baillie Gifford & Co, under the terms of the Management Agreement. The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations.

Baillie Gifford & Co have been delegated responsibility for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly. This responsibility also extends to maintaining effective operational and compliance controls and risk management.

The Baillie Gifford & Co Heads of Business Risk & Internal Audit and Regulatory Risk provide the Board with regular reports on Baillie Gifford & Co's monitoring programmes. The reporting procedures for these departments are defined and formalised within a service level agreement. Baillie Gifford & Co conduct an annual review of their system of internal controls which is documented within an internal controls report. This report is prepared

Major Interests in Shares

Name	No. of ordinary 5p shares held	% of issue
Investec Asset Management Ltd (indirect)	3,250,056	5.25
1607 Capital Partners (indirect)	3,157,725	5.10
Cadogan Management	2,689,750	4.34
Barclays PLC	2,453,914	3.96

The above information has been intimated to the Company as at 13 October 2008.

in accordance with Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations Made Available to Third Parties and is independently reviewed by Baillie Gifford & Co's auditors. A copy of the report is submitted to the Board.

The Company's investments are segregated from those of Baillie Gifford & Co and their other clients through the appointment of Mizuho Corporate Bank Ltd and The Bank of New York Mellon as independent custodians of the Company's investments.

A detailed risk map is prepared which identifies the significant risks faced by the Company and the key controls to minimise these risks.

These procedures ensure that consideration is given regularly to the nature and extent of the risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage the risks identified. The Board confirms that these procedures have been in place throughout the Company's financial year and continue to be in place up to the date of approval of this report.

Internal Audit

The Audit Committee carries out an annual review of the need for an internal audit function. The Audit Committee continues to believe that the compliance and internal control systems and the internal audit function in place within the Investment Managers provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Accountability and Audit

The respective responsibilities of the Directors and the Auditors in connection with the Financial Statements are set out on pages 30 to 32.

Going Concern

In accordance with the Company's Articles of Association, shareholders have the right to vote annually at the Annual General Meeting on whether to continue the Company. After making enquiries and notwithstanding the above, the accounts have been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future. If the continuation resolution is not passed, the Articles provide that the Directors shall convene a General Meeting within three months at which a special resolution will be proposed to wind up the Company voluntarily. If the Company is wound up, its investments may not be realised at their full market value.

Audit Committee

An Audit Committee has been established consisting of all the independent Directors. Its authority and duties are clearly defined within its written terms of reference which are available on request from the Company and the Managers' website: www.japantrustplc.co.uk. Mr RA Barfield is Chairman of the Audit Committee. Mr NAC Bannerman will become Chairman of the Audit Committee when Mr RA Barfield becomes Chairman of the Board. The Committee's responsibilities, which were discharged during the year, include:

- monitoring and reviewing the integrity of the half-yearly and annual financial statements and the internal financial controls;

- making recommendations to the Board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services;
- reviewing and monitoring the independence, objectivity and effectiveness of the external auditors;
- reviewing the arrangements in place within Baillie Gifford & Co whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company;
- reviewing the terms of the Investment Management Agreement; and
- considering annually whether there is a need for the Company to have its own internal audit function.

The Audit Committee considers the experience and tenure of the audit partner and staff and the nature and level of services provided. The Committee receives confirmation from the auditors that they have complied with the relevant UK professional and regulatory requirements on independence. Non-audit fees for the year to 31 August 2008 were £1,200 and related to advice on the content of the Half-Yearly Financial Report. The Committee does not believe that this has impaired the Auditors' independence.

Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Managers meet regularly with shareholders, accompanied by the Chairman when requested and report

shareholders' views to the Board. The Chairman is available to meet with shareholders as appropriate. Shareholders wishing to communicate with any members of the Board may do so by writing to them at the address on the back cover.

The Company's Annual General Meeting provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the Meeting and is published on the Company's page of the Managers' website:

www.japantrustplc.co.uk. The notice period for the Annual General Meeting is at least twenty working days. Shareholders and potential investors may obtain up-to-date information on the Company from the Managers' website.

Voting Policy and Socially Responsible Investment

The Company has given discretionary voting powers to the investment managers, Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests.

The Company believes that it is in the shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments and have asked the Managers to take these issues into account as long as the investment objectives are not compromised. The Managers do not exclude companies from their investment universe purely on the grounds of environmental, social and governance issues but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems. The Managers' policy has been reviewed and endorsed by the Board. The Managers are signatories to

the Carbon Disclosure Project and so take an active interest in companies' policies and management systems to mitigate risks associated with greenhouse gas emissions and global warming.

Investment Manager

An Investment Management Agreement between the Company and Baillie Gifford & Co sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Management Agreement is terminable on not less than 12 months' notice or on shorter notice in certain circumstances. Compensation would only be payable if termination occurred prior to the expiry of the notice period. Details of the fee arrangements with Baillie Gifford & Co are shown on page 39.

The Board considers the Company's investment management and secretarial arrangements for the Company on an ongoing basis and a formal review is conducted annually. The Board considers, amongst others, the following topics in its review:

- the quality of the personnel assigned to handle the Company's affairs;
- the investment process and the results achieved to date;
- investment performance;
- the administrative services provided by the Secretaries and the quality of information provided;
- the marketing efforts undertaken by the Managers; and
- the relationship with the Managers.

Following the most recent review it is the opinion of the Directors that the continuing appointment of Baillie Gifford & Co as Managers, on the terms agreed, is in the interests of shareholders as a whole due to the strength and quality of the investment management team, the Managers' commitment to the investment trust sector and the comprehensive efficiency of the secretarial and administrative functions.

Directors

Information about the Directors, including their relevant experience, can be found on page 8.

Mr RA Barfield and Mr NAC Bannerman will offer themselves for re-election at the Annual General Meeting. Mr NAC Bannerman is retiring by rotation and Mr RA Barfield, having served for more than nine years, is subject to annual re-election. Following formal performance evaluation, the performance of Mr RA Barfield and Mr NAC Bannerman continues to be effective and each remains committed to the Company. Their contribution to the Board is greatly valued and the Board recommends their re-election to shareholders.

Mr GM Murray will retire from the Board at the conclusion of the Annual General Meeting.

Mr MH Paling will be appointed on 1 November 2008 and is required to seek election by shareholders at the forthcoming Annual General Meeting. The Board believes Mr Paling brings many years' investment experience, with particular focus on Asian markets, to the Company and recommends his election to shareholders. Mr Paling's biography is included on page 23 under Nomination Committee.

The Company maintains Directors' and Officers' Liability Insurance.

The Company has entered into deeds of indemnity in favour of each of its Directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

Share Capital

Capital Structure

The Company's capital structure consists of 61,935,000 ordinary shares of 5p each at 31 August 2008.

Voting

Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Information on the deadlines for proxy appointments can be found on page 49.

Market Purchases of Own Shares

At the last Annual General Meeting the Company was granted authority to purchase up to 9,284,056 ordinary shares (equivalent to 14.99% of its issued share capital), such authority to expire at the 2008 Annual General Meeting. No shares were bought back during the year under review.

Share buy-backs may be made principally:

- (i) to enhance net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value; and

- (ii) to address any imbalance between the supply of and the demand for the Company's shares that results in a discount of the quoted market price to the published net asset value per share.

The Company may hold bought-back shares "in treasury" and then:

- (i) sell such shares (or any of them) for cash (or its equivalent under the Treasury Shares Regulations); or
- (ii) cancel the shares (or any of them).

All buy-backs up to the 10% issued share capital limit imposed by the Treasury Share Regulations will initially be held in treasury (while shares bought back in excess of that limit will be cancelled). Shares will only be resold from treasury at a premium to net asset value.

The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to purchase up to 14.99% of the Company's ordinary shares in issue at the date of passing of the resolution, such authority to expire at the Annual General Meeting of the Company to be held in respect of the year ending 31 August 2009 or 31 December 2009, whichever is the earlier.

In accordance with the Listing Rules of the UK Listing Authority, the maximum price (excluding expenses) that may be paid on the exercise of the authority must not exceed the higher of:

- (i) 105 percent of the average of the middle market quotations for the Shares over the five business days immediately preceding the date of purchase; and
- (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange.

The minimum price (exclusive of expenses) that may be paid will be 5p per share. Purchases of shares will be made within guidelines established, from time to time, by the Board. Your attention is drawn to Resolution 9 in the Notice of Annual General Meeting.

Share Issuance

At the 2004 Annual General Meeting the Directors were given the authority to issue 20,645,000 ordinary shares, such authority to expire on 23 November 2009. In addition they were given authority to issue new shares or re-sell existing shares from treasury for cash on a non-pre-emptive basis (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an aggregate nominal amount of £154,837.50 (representing 5% of the issued ordinary share capital of the Company). This authority, which also expires on 23 November 2009, will only be used to issue/re-sell shares at a premium to net asset value and only when the Directors believe that it would be in the best interests of the Company to do so.

The Board believes that the ability to buy-back shares at a discount and to re-sell them or issue new shares at a premium are useful tools in smoothing supply and demand and also against future shrinkage of the Company.

Articles of Association

Over the past year, and since the Articles of Association (the "Articles") of the Company were last updated, company law in the United Kingdom has undergone major reform through the coming into force of parts of the Companies Act 2006 (the "2006 Act"). Accordingly, the Board considers it prudent to replace the Company's existing Articles of Association with new articles which take account of these developments (the "New Articles").

The 2006 Act is being brought into force in stages, beginning in January 2007, with full implementation scheduled by October 2009. At this year's AGM, the Company proposes to adopt provisions which reflect changes in the law brought about by the 2006 Act in respect of, amongst other things, electronic communications, notice periods for meetings, proxy voting and directors' conflicts of interest.

A copy of the New Articles will be available for inspection at Royal London House, 22/25 Finsbury Square, London, EC2A 1DX and the registered office of the Company during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of the notice of the AGM (the "Notice") until the conclusion of the Annual General Meeting.

A summary of the material changes proposed to be brought about by the adoption of the New Articles is set out in the Appendix to the Notice on page 50. References to Article numbers are references to a particular Article in the New Articles.

Continuation of the Company

The Company's Articles of Association give shareholders the right to vote annually at the Annual General Meeting of the Company on whether to continue the Company. The Directors wish to draw your attention to Resolution 8 in the Notice of Annual General Meeting, which proposes that the Company be continued until the 2009 Annual General Meeting.

Recommendation

The Directors consider each resolution being proposed at the Annual General Meeting, to be in the best interests of the Company and its shareholders as a whole

and they unanimously recommend that all shareholders vote in favour of them, as they intend to do in respect of their own beneficial holdings of shares which amount in aggregate to 44,211 shares, representing approximately 0.07% of the current issued share capital of the Company.

Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to obtain the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is its policy to abide by these terms. The Company had no trade creditors at either 31 August 2007 or 31 August 2008.

Disclosure of Information to Auditors

The Directors confirm that so far as each of the Directors is aware there is no relevant audit information of which the Company's auditors are unaware and the Directors have taken all the steps that they might reasonably be expected to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as independent auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Baillie Gifford & Co
Managers and Secretaries
14 October 2008

Directors' Remuneration for the Year (audited)

	2008 £	2007 £
GM Murray (Chairman)	22,500	20,500
NAC Bannerman	16,000	14,500
RA Barfield	18,000	16,500
M Barrow	16,000	14,500
PS Dimond	16,000	14,500
	88,500	80,500

The Directors who served in the year received the above emoluments in the form of fees.

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 31 and 32.

Remuneration Committee

The Company has five Directors all of whom are non-executive. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co, who have been appointed by the Board as Managers and Secretaries, provide comparative information when the Board considers the level of Directors' fees.

Policy on Directors' Fees

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. It should also reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts. It is intended that this policy will continue for the year ended 31 August 2009 and subsequent years.

The fees for the non-executive Directors are determined within an aggregate limit set out in the Company's Articles of Association, which currently stands at £100,000. Non-executive Directors are not eligible for any other remuneration apart from the reimbursement of allowable expenses.

The Board reviewed Directors' fees during the year and concluded that the fees should

remain unchanged at £22,500 for the Chairman, £16,000 for the other Directors, with the Chairman of the Audit Committee receiving an additional £2,000. Directors' fees were last increased on 1 September 2007.

Directors' Service Contracts

It is the Board's policy that none of the Directors has a service contract. All of the Directors have been provided with appointment letters and the terms of their appointment provide that Directors shall retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter Directors are obliged to retire by rotation and may, if they wish, offer themselves for re-election no longer than every three years after that. The Board has also resolved that Directors who have served on the Board for more than nine years will submit themselves for re-election annually. There is no notice period and no provision for compensation upon early termination of appointment.

Directors' Service Details

	Date of appointment	Due date for election/re-election
GM Murray	3 September 1981	Retiring AGM 2008
NAC Bannerman	2 October 2003	AGM 2008
RA Barfield	1 December 1997	AGM 2008
M Barrow	2 October 2001	AGM 2010
PS Dimond	31 July 2006	AGM 2009

Company Performance

The graph below compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared with the total shareholder return on a notional investment made up of shares in the component parts of the TOPIX (in sterling terms). This index was chosen for comparison purposes, as it is the index against which the Company has measured its performance over the period covered by the graph.

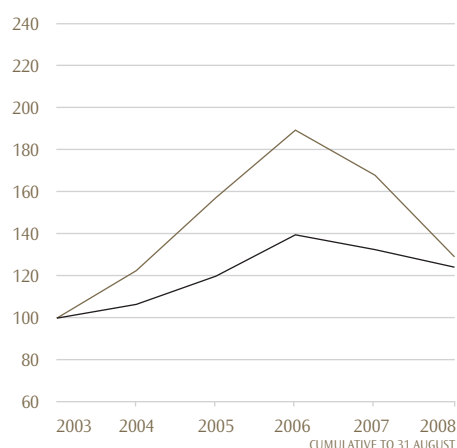
Approval

The Directors' Remuneration Report on pages 28 and 29 was approved by the Board of Directors and signed on its behalf on 14 October 2008.

G Malcolm Murray
Chairman

Performance Graph

(figures rebased to 100 at 31 August 2003)



Source: Thomson Financial Datastream/
Baillie Gifford & Co

— Baillie Gifford Japan's share price
— TOPIX (in sterling terms)

All figures are total returns (assuming net dividends are reinvested).

Past performance is no guarantee of future performance.

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether they comply with applicable UK accounting standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the

Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Report includes a fair view of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

By order of the Board
G Malcolm Murray
14 October 2008

Independent Auditors' Report

to the shareholders of The Baillie Gifford Japan Trust PLC

We have audited the financial statements of The Baillie Gifford Japan Trust PLC ('the Company') for the year ended 31 August 2008 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors'

Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information

given in the Directors' Report includes that specific information presented in the Chairman's Statement, Managers' Report, Review of Investments and List of Investments that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Managers' Report, the Corporate Governance Statement and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors'

Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 August 2008 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
Edinburgh
14 October 2008

Income Statement

	Notes	For the year ended 31 August 2008			For the year ended 31 August 2007		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	9	–	(22,157)	(22,157)	–	(12,386)	(12,386)
Currency (losses)/gains	14	–	(2,866)	(2,866)	–	1,203	1,203
Income	2	2,195	–	2,195	1,844	–	1,844
Investment management fee	3	(1,057)	–	(1,057)	(1,432)	–	(1,432)
Other administrative expenses	5	(247)	–	(247)	(239)	–	(239)
Net return before finance costs and taxation		891	(25,023)	(24,132)	173	(11,183)	(11,010)
Finance costs of borrowings	6	(513)	–	(513)	(385)	–	(385)
Net return on ordinary activities before taxation		378	(25,023)	(24,645)	(212)	(11,183)	(11,395)
Tax on ordinary activities	7	(132)	–	(132)	(114)	–	(114)
Net return on ordinary activities after taxation		246	(25,023)	(24,777)	(326)	(11,183)	(11,509)
Net return per ordinary share	8	0.40p	(40.40p)	(40.00p)	(0.52p)	(18.06p)	(18.58p)

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

All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued during the year.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 37 to 47 are an integral part of the financial statements.

Balance Sheet

	Notes	At 31 August 2008		At 31 August 2007	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	9		127,749		160,997
Current assets					
Debtors	10	332		164	
Cash and deposits	17	10,511		2,439	
		10,843		2,603	
Creditors					
Amounts falling due within one year	11	(2,950)		(4,762)	
Net current assets/(liabilities)			7,893		(2,159)
Total assets less current liabilities			135,642		158,838
Creditors					
Amounts falling due after more than one year	12		(24,249)		(22,668)
Total net assets			111,393		136,170
Capital and reserves					
Called-up share capital	13		3,097		3,097
Share premium	14		22,110		22,110
Capital redemption reserve	14		203		203
Capital reserve – realised	14		98,710		93,068
Capital reserve – unrealised	14		(4,254)		26,411
Revenue reserve	14		(8,473)		(8,719)
Equity shareholders' funds			111,393		136,170
Net asset value per ordinary share	15		179.9p		219.9p

The Financial Statements were approved and authorised for issue by the Board and signed on 14 October 2008.

G Malcolm Murray
Chairman

The accompanying notes on pages 37 to 47 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 August 2008

Notes	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total Shareholders' Funds £'000
Shareholders' funds at 1 September 2007	3,097	22,110	203	93,068	26,411	(8,719)	136,170
Net return on ordinary activities after taxation 14	–	–	–	5,642	(30,665)	246	(24,777)
Shareholders' funds at 31 August 2008	3,097	22,110	203	98,710	(4,254)	(8,473)	111,393

For the year ended 31 August 2007

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total Shareholders' Funds £'000
Shareholders' funds at 1 September 2006	3,097	22,110	203	87,572	43,090	(8,393)	147,679
Net return on ordinary activities after taxation	–	–	–	5,496	(16,679)	(326)	(11,509)
Shareholders' funds at 31 August 2007	3,097	22,110	203	93,068	26,411	(8,719)	136,170

The accompanying notes on pages 37 to 47 are an integral part of the financial statements.

Cash Flow Statement

	Notes	For the year ended 31 August 2008		For the year ended 31 August 2007	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	16		696		35
Servicing of finance					
Interest paid		(502)		(385)	
Net cash outflow from servicing of finance			(502)		(385)
Financial investment					
Acquisitions of investments		(19,146)		(33,004)	
Disposals of investments		30,164		30,272	
Realised loss on forward currency contract		(95)		–	
Exchange differences on settlement of investment transactions		(102)		6	
Net cash inflow/(outflow) from financial investment			10,821		(2,726)
Net cash inflow/(outflow) before financing			11,015		(3,076)
Financing					
Bank loans drawn down		–		4,100	
Bank loans repaid		(4,923)		(3,280)	
Net cash (outflow)/inflow from financing			(4,923)		820
Increase/(decrease) in cash	17		6,092		(2,256)
Reconciliation of net cash flow to movement in net debt	17				
Increase/(decrease) in cash in the year			6,092		(2,256)
Net cash flow from bank loans			4,923		(820)
Exchange differences on bank loans			(4,753)		1,218
Exchange differences on cash			1,980		(21)
Movement in net debt in the year			8,242		(1,879)
Net debt at 1 September			(24,506)		(22,627)
Net debt at 31 August			(16,264)		(24,506)

The accompanying notes on pages 37 to 47 are an integral part of the financial statements.

Notes to Accounts

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11	Creditors – Amounts falling due within one year		

1 Principal Accounting Policies

A summary of the principal accounting policies, which are unchanged from the prior year and have been applied consistently, are set out below.

(a) Basis of Accounting

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the assumption that approval as an investment trust will continue to be granted.

The financial statements have been prepared in accordance with The Companies Act, applicable UK Accounting Standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" issued in January 2003, revised in 2005.

In order to reflect better the activities of the Company and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

Financial assets and financial liabilities are recognised in the Company's balance sheet when it becomes a party to the contractual provisions of the instrument.

The Directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

(b) Investments

Purchases and sales of investments are accounted for on a trade date basis. Investments in securities are designated as valued at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed investments and unlisted investments quoted on the Hercules Japan market is at last traded price. Investments quoted on the Hercules Japan market are classified as unlisted as this market is not an official stock exchange. The fair value of other unlisted investments is determined by the Directors based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate. Changes in fair value of all investments held at fair value and realised

gains and losses on disposal are recognised as capital items in the Income Statement.

(c) Cash

Cash includes cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if they have a maturity or period of notice of not more than one working day.

(d) Income

- (i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.
- (ii) Interest from fixed interest securities is recognised on an effective yield basis.
- (iii) Unfranked investment income includes taxes deducted at source.
- (iv) Interest receivable on bank deposits and stock lending income are recognised on an accruals basis.
- (v) If scrip is taken in lieu of dividends in cash, the net amount of the cash dividend declared is credited to the revenue account.

(e) Expenses

All expenses are accounted for on an accruals basis and are charged to the revenue account except where they relate directly to the acquisition or disposal of an investment, in which case they are added to the cost of the investment or deducted from the sale proceeds.

(f) Finance Costs

Long term borrowings are carried in the balance sheet at amortised cost, representing the cumulative amount of net proceeds after issue, plus accrued finance costs. The finance costs of such borrowings are allocated to the revenue account at a constant rate on the carrying amount.

Gains and losses on the repurchase or early settlement of debt is wholly charged to capital.

(g) Deferred Taxation

Deferred taxation is provided on all timing differences which have originated but not reversed by the balance sheet date, calculated at the current tax rate relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(h) Foreign Currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Monetary assets, liabilities and equity investments held at fair value in foreign currencies are translated at the closing rates of exchange at the balance sheet date, with the exception of forward foreign exchange contracts which are valued at the forward rate ruling at the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the Income Statement and classified as a revenue or capital item.

(i) Capital Reserves

- (i) Capital Reserves Realised: gains and losses on realisation of investments and realised exchange differences of a capital nature are dealt with in this reserve. Purchases of the Company's own shares for cancellation are also funded from this reserve.
- (ii) Capital Reserves Unrealised: unrealised appreciation/depreciation represents the amount by which the market value of assets and liabilities differs from their book cost and is dealt with in this reserve.

2 Income

	2008 £'000	2007 £'000
Income from investments		
Overseas dividends	1,884	1,625
Overseas interest	53	–
	1,937	1,625
Other income		
Deposit interest	9	5
Interest on VAT recovered (see note 4)	137	–
Stock lending income*	112	214
	258	219
Total income	2,195	1,844
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	1,884	1,625
Interest from financial assets designated at fair value through profit or loss	53	–
Deposit interest from financial assets not at fair value through profit or loss	146	5
Other income from financial assets	112	214
Total income	2,195	1,844

* At 31 August 2008 the aggregate value of securities on loan amounted to £55.4m (2007 – £73.4m) and the aggregate value of the collateral, which was held in Japanese Government bonds, amounted to £63.4m (2007 – £103.1m). The maximum aggregate value of securities on loan during the year amounted to £112m (2007 – £96.0m).

3 Investment Management Fee – all charged to revenue

	2008 £'000	2007 £'000
Investment management fee	1,214	1,425
Irrecoverable VAT thereon	–	7
	1,214	1,432
VAT recovered (see note 4)	(157)	–
	1,057	1,432

Baillie Gifford & Co are employed by the Company as Managers and Secretaries under a management agreement which is terminable on not less than twelve months' notice or on shorter notice in certain circumstances. The fee in respect of each quarter is 0.25% of the total net assets of the Company attributable to its shareholders on the last day of that quarter.

4 VAT Recovered

In 2007 the European Court of Justice ruled that investment trust management fees should be exempt from VAT. Since then HMRC has accepted the Managers' repayment claims for the periods from 1990 to 1996 and from 2000 to 2007. £157,000 of VAT together with £137,000 of interest was received by the Managers on behalf of the Company in respect of these periods. These amounts have been paid to the Company and recognised in the current year.

5 Other Administrative Expenses – all charged to revenue

	2008 £'000	2007 £'000
General administrative expenses	142	147
Directors' fees (see Directors' Remuneration Report on pages 28 and 29)	89	80
Auditors' remuneration – statutory audit of Company's annual financial statements	15	12
– other services	1	–
	247	239

6 Finance Costs of Borrowings – all charged to revenue

	2008 £'000	2007 £'000
On bank loans	513	385

7 Tax on Ordinary Activities

	2008 £'000	2007 £'000
Analysis of charge in year		
Overseas taxation	132	114
Factors affecting tax charge for year		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 29.17% (2007: 30%)		
The differences are explained below:		
Net return on ordinary activities before taxation	(24,645)	(11,395)
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 29.17% (2007 – 30%)	(7,189)	(3,419)
Effects of:		
Capital returns not taxable	7,299	3,355
Income taxable in different periods	(9)	(2)
Overseas withholding tax	132	114
Taxable losses in year (utilised)/not utilised	(101)	66
Current tax charge for the year	132	114

Capital returns are not included in the above analysis, since as an investment trust, the Company's capital gains are not taxable.

Factors that may affect future tax charges

At 31 August 2008 the Company had a potential deferred tax asset of £2,862,000 (2007 – £2,836,000) on taxable losses and unrelieved withholding tax which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been provided on these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and it is not liable to tax on its capital gains. The potential deferred tax asset has been calculated using a corporation tax rate of 28% (2007 – 28%).

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

8 Net return per Ordinary Share

	Revenue	2008 Capital	Total	Revenue	2007 Capital	Total
Net return on ordinary activities after taxation	0.40p	(40.40p)	(40.00p)	(0.52p)	(18.06p)	(18.58p)

Revenue return per ordinary share is based on the net revenue return on ordinary activities after taxation of £246,000 (2007 – net revenue loss of £326,000), and on 61,935,000 ordinary shares, being the number of ordinary shares in issue throughout each year.

Capital return per ordinary share is based on the net capital loss for the financial year of £25,023,000 (2007 – net capital loss of £11,183,000), and on 61,935,000 ordinary shares, being the number of ordinary shares in issue throughout each year.

There are no dilutive or potentially dilutive shares in issue.

9 Fixed Assets – Investments

	2008 £'000	2007 £'000
Financial assets at fair value through profit or loss		
Listed overseas – equity investments	124,330	160,997
– debt instruments	1,815	–
Unlisted – equity investments	1,604	–
Total investments in financial assets at fair value through profit or loss	127,749	160,997

	Listed overseas £'000	Unlisted £'000	Total £'000
Cost of investments held at 1 September 2007	138,777	–	138,777
Fair value adjustment at 1 September 2007	22,220	–	22,220
Fair value of investments held at 1 September 2007	160,997	–	160,997
Movements in year:			
Purchases at cost	17,122	2,024	19,146
Sales – proceeds	(30,248)	–	(30,248)
– realised gains on sales	3,370	–	3,370
Amortisation of fixed interest book cost	11	–	11
Changes in fair value	(25,107)	(420)	(25,527)
Fair value of investments held at 31 August 2008	126,145	1,604	127,749
Cost of investments held at 31 August 2008	129,032	2,024	131,056
Fair value adjustment at 31 August 2008	(2,887)	(420)	(3,307)
Fair value of investments held at 31 August 2008	126,145	1,604	127,749

The purchases and sales proceeds figures above include transaction costs of £28,000 (2007 – £52,000) and £40,000 (2007 – £38,000) respectively.

	2008 £'000	2007 £'000
(Losses)/gains on investments		
Realised gains on sales	3,370	4,459
Changes in fair value	(25,527)	(16,845)
	(22,157)	(12,386)

Of the realised gains on sales during the year of £3,370,000 (2007 – £4,459,000), a net gain of £6,770,000 (2007 – £2,905,000) was included in unrealised appreciation at the previous year end.

10 Debtors

	2008 £'000	2007 £'000
Due within one year:		
Income accrued (net of withholding tax)	130	95
Sales for subsequent settlement	84	–
Unrealised gain on forward currency contracts	104	–
Other debtors and prepayments	14	69
	332	164

The carrying amount of debtors is a reasonable approximation of fair value.

11 Creditors – Amounts falling due within one year

	2008 £'000	2007 £'000
Bank loan	2,526	4,277
Other creditors and accruals	424	485
	2,950	4,762

Included in other creditors is £278,000 (2007 – £340,000) in respect of the investment management fee.

12 Creditors – Amounts falling due after more than one year

	2008 £'000	2007 £'000
Bank loans	24,249	22,668

Borrowing facilities

The following fixed rate term loans have been arranged with ING Bank N.V., all of which are fully drawn at 31 August 2008:

- 5 year ¥500 million loan at 1.37% maturing 26 November 2008
- 5 year ¥1,000 million loan at 1.28% maturing 9 August 2010
- 5 year ¥1,000 million loan at 1.535% maturing 13 October 2010
- 7 year ¥1,800 million loan at 1.79% maturing 25 May 2011
- 7 year ¥1,000 million loan at 2.425% maturing 11 August 2014

The main covenants relating to the above loans are:

- Total borrowings shall not exceed 35% of the Company's net asset value; and
- The Company's minimum net asset value shall be £70m.

13 Called-up Share Capital

	2008		2007	
	Number	£'000	Number	£'000
Authorised ordinary shares of 5p each	82,600,000	4,130	82,600,000	4,130
Allotted, issued and fully paid ordinary shares of 5p each	61,935,000	3,097	61,935,000	3,097

At 31 August 2008 the Company had authority to buy back 9,284,056 shares at a discount to net asset value as well as the authority to issue/sell from treasury 6,193,500 shares at a premium to net asset value. No shares were bought back or issued/sold during the year. Under the provisions of the Company's Articles of Association share buy-backs are funded from the realised capital reserve.

14 Reserves

	Called-up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Equity shareholders' funds £'000
At 1 September 2007	3,097	22,110	203	93,068	26,411	(8,719)	136,170
Net gain on realisation of investments	–	–	–	3,370	–	–	3,370
Changes in fair value of investments	–	–	–	–	(25,527)	–	(25,527)
Exchange differences on bank loans	–	–	–	489	(5,242)	–	(4,753)
(Losses)/gains on forward currency contracts	–	–	–	(95)	104	–	9
Exchange differences on settlement of investment transactions	–	–	–	(102)	–	–	(102)
Other exchange differences	–	–	–	1,980	–	–	1,980
Net revenue for the year	–	–	–	–	–	246	246
At 31 August 2008	3,097	22,110	203	98,710	(4,254)	(8,473)	111,393

Distributable capital reserves

Under the terms of the Company's Articles of Association, sums standing to the credit of Capital reserves are treated as realised only by way of redemption or purchase of any of the Company's own shares, for so long as the Company carries on business as an Investment Company. Company Law states that Investment Companies may only distribute accumulated "realised" profits.

14 Reserves (continued)

The Institute of Chartered Accountants in England and Wales, in its technical guidance TECH 01/08, states that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, can be treated as realised, provided the change recognised can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits in respect of such securities, currently included within the Unrealised Capital Reserve, can be regarded as distributable under Company Law.

This technical interpretation of the meaning of distributable reserves would, as a consequence, give rise at 31 August 2008 to capital reserves available for distribution of approximately £95.8 million.

15 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net assets attributable to the ordinary shareholders at the year end calculated in accordance with the Articles of Association were as follows:

	2008	2007	2008 £'000	2007 £'000
Ordinary shares of 5p	179.9p	219.9p	111,393	136,170

Net asset value per ordinary share is based on the net assets as shown above and 61,935,000 (2007 – 61,935,000) ordinary shares, being the number of ordinary shares in issue at the year end.

16 Reconciliation of Net Return before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	2008 £'000	2007 £'000
Net return before finance costs and taxation	(24,132)	(11,010)
Losses on investments	22,157	12,386
Realised exchange differences	(2,272)	(1,037)
Unrealised exchange differences on bank loans	5,242	(166)
Amortisation of fixed interest book cost	(11)	–
Increase in accrued income	(37)	(7)
(Increase)/decrease in other debtors	(49)	11
Decrease in creditors	(72)	(29)
Overseas tax suffered	(130)	(113)
Net cash inflow from operating activities	696	35

17 Analysis of Change in Net Debt

	At 1 September 2007 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 August 2008 £'000
Cash and deposits	2,439	6,092	–	1,980	10,511
Loans due within one year	(4,277)	4,923	(2,139)	(1,033)	(2,526)
Loans due after one year	(22,668)	–	2,139	(3,720)	(24,249)
	(24,506)	11,015	–	(2,773)	(16,264)

18 Contingent Liabilities, Guarantees and Financial Commitments

There were no contingent liabilities, guarantees or financial commitments at either year end.

19 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 28. No Director has a contract of service with the Company. During the year no Director was interested in any contract or other matter requiring disclosure under section 232 of the Companies Act 1985. The details of the management fee are set out in note 3, and the management fee due to Baillie Gifford as at 31 August 2008 is disclosed in note 11.

20 Financial Instruments

The Company invests in medium to smaller sized Japanese companies and makes other investments so as to achieve its investment objective of long term capital growth. The Company borrows money when the Board and Managers have sufficient conviction that the assets funded by borrowed monies will generate a return in excess of the cost of borrowing. In pursuing its investment objective, the Company is exposed to various types of risk that are associated with the financial instruments and markets in which it invests and could result in a reduction in the Company's net assets.

These risks are categorised here as market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Board monitors closely the Company's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise the short term volatility.

The risk management policies and procedures outlined in this note have not changed substantially from the previous accounting period.

Market Risk

The fair value or future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Board of Directors reviews and agrees policies for managing these risks and the Company's Investment Manager assesses the exposure to market risk when making individual investment decisions as well as monitoring the overall level of market risk across the investment portfolio on an ongoing basis.

(i) Currency Risk

The Company's assets, liabilities and income are principally denominated in yen. The Company's functional currency and that in which it reports its results is sterling. Consequently, movements in the yen/sterling exchange rate will affect the sterling value of those items.

The Investment Manager monitors the Company's yen exposure (and any other overseas currency exposure) and reports to the Board on a regular basis. The Investment Manager assesses the risk to the Company of the overseas currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets, liabilities, income and expenses are exposed. However, the currency in which a company's share price is quoted is not necessarily the one in which it earns its profits. The movement in exchange rates on overseas earnings may have a more significant impact upon a company's valuation than a simple translation of the currency in which the share price of the company is quoted.

Yen borrowings are used periodically to limit the Company's exposure to anticipated future changes in the yen/sterling exchange rate which might otherwise adversely affect the value of the portfolio of investments. The Company may also use forward currency contracts to limit the Company's exposure to anticipated future changes in exchange rates so that the currency risks entailed in holding the assets are mainly eliminated. During the year the Company entered into forward currency contracts the purpose of which is to transfer the currency exposure of a euro denominated investment from euro to yen.

Exposure to currency risk through asset allocation, which is calculated by reference to the currency in which the asset or liability is quoted, is shown below.

	Investments £'000	Cash and deposits £'000	Forward currency contracts £'000	Bank loans £'000	Other debtors and creditors* £'000	Net exposure £'000
At 31 August 2008						
Yen	125,898	10,166	1,933	(26,775)	120	111,342
Euro	1,851	–	(1,802)	–	–	49
Total exposure to currency risk	127,749	10,166	131	(26,775)	120	111,391
Sterling	–	345	(27)	–	(316)	2
	127,749	10,511	104	(26,775)	(196)	111,393

*Includes net non-monetary assets of £10,000.

	Investments £'000	Cash and deposits £'000	Forward currency contracts £'000	Bank loans £'000	Other debtors and creditors* £'000	Net exposure £'000
At 31 August 2007						
Yen	160,997	2,391	–	(26,945)	13	136,456
Total exposure to currency risk	160,997	2,391	–	(26,945)	13	136,456
Sterling	–	48	–	–	(334)	(286)
	160,997	2,439	–	(26,945)	(321)	136,170

*Includes net non-monetary assets of £10,000.

20 Financial Instruments (continued)

Currency Risk Sensitivity

At 31 August 2008, if sterling had strengthened by 10% against the yen, with all other variables held constant, total net assets and net return on ordinary activities after taxation would have decreased by £11,134,000 (2007 – £13,646,000). A 10% weakening of sterling against the yen, with all other variables held constant, would have had an equal but opposite effect on the financial statement amounts.

(ii) Interest Rate Risk

Interest rate movements may affect the level of income receivable on cash deposits and the fair value of the investment in fixed interest rate securities. They may also impact upon the market value of the Company's investments as the effect of interest rate movements upon the earnings of a company may have a significant impact upon the valuation of that company's equity.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and when entering borrowing agreements.

The Board reviews on a regular basis the amount of investments in cash and the income receivable on cash deposits.

The Company finances part of its activities through borrowings at approved levels. The amount of such borrowings and the approved levels are monitored and reviewed regularly by the Board.

The interest rate risk profile of the Company's interest bearing financial assets and liabilities at 31 August 2008 is shown below.

Financial Assets

	Fair value £'000	2008 Weighted average interest rate	Weighted average period until maturity	Fair value £'000	2007 Weighted average interest rate	Weighted average period until maturity
Fixed rate:						
Euro bond	1,851	5.27%	40 years	–	–	–

The cash deposits generally comprise overnight call or short term money market deposits and earn interest at floating rates based on prevailing bank base rates.

Financial Liabilities

The interest rate risk profile of the Company's loans at 31 August was:

	Book value £'000	2008 Weighted average interest rate	Weighted average period until maturity	Book value £'000	2007 Weighted average interest rate	Weighted average period until maturity
Bank Loans:						
Yen denominated – fixed rate	26,775	1.7%	34 months	26,945	1.7%	41 months

Interest Rate Risk Sensitivity

An increase of 100 basis points in bond yields as at 31 August 2008 would have decreased total net assets and return on ordinary activities by £219,000 (2007 – Nil). A decrease of 100 basis points would have had an equal but opposite effect.

(iii) Other Price Risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets. The Company's exposure to changes in market prices relates to the fixed asset investments as disclosed in note 9.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore performance may well diverge from the comparative index.

Other Price Risk Sensitivity

A full list of the Company's investments is shown on pages 18 and 19. In addition, a list of the 20 largest holdings together with various analyses of the portfolio by industrial sector and exchange listing are shown on pages 13 and 14.

111.6% of the Company's net assets are invested in Japanese quoted equities. A 10% increase in quoted equity valuations at 31 August 2008 would have increased total net assets and net return on ordinary activities after taxation by £12,433,000 (2007 – £16,100,000). A decrease of 10% would have had an equal but opposite effect.

20 Financial Instruments (continued)

Liquidity Risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is not significant as the majority of the Company's assets are in investments that are readily realisable.

The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding (see Investment Policy on pages 20 and 21).

The Company has the power to take out borrowings, which give it access to additional funding when required. The Company's borrowing facilities are detailed in note 12.

The maturity profile of the Company's financial liabilities at 31 August was:

	2008 £'000	2007 £'000
In less than one year	2,950	4,762
In more than one year, but not more than two years	5,052	2,139
In more than two years, but not more than five years	14,145	16,252
In more than five years	5,052	4,277
	27,199	27,430

The Company repaid ¥1bn of fixed rate loans on maturity in August 2008.

Credit Risk

This is the risk that a failure of a counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss. This risk is managed as follows:

- where the Investment Manager makes an investment in a bond or other security with credit risk, that credit risk is assessed and then compared to the prospective investment return of the security in question;
- the Company's listed investments are held on its behalf by Mizuho Corporate Bank, Ltd and the Bank of New York Mellon as the Company's custodians. Bankruptcy or insolvency of the custodians may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Manager monitors the Company's risk by reviewing the custodians' internal control reports and reporting its findings to the Board;
- investment transactions are carried out with a large number of brokers whose credit worthiness is reviewed by the Investment Manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's custodian bank ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed;
- the credit worthiness of the counterparty to transactions involving derivatives, structured notes and other arrangements, wherein the credit worthiness of the entity acting as broker or counterparty to the transaction is likely to be of sustained interest, are subject to rigorous assessment by the Investment Manager; and
- cash is only held at banks that have been identified by the Managers as reputable and of high credit quality.

Credit Risk Exposure

The exposure to credit risk at 31 August was:

	2008 £'000	2007 £'000
Fixed interest investments	1,851	–
Cash and deposits	10,511	2,439
Debtors and prepayments	332	164
	12,694	2,603

None of the Company's financial assets are past due or impaired.

20 Financial Instruments (continued)

Fair value of financial assets and financial liabilities

The Directors are of the opinion that the financial assets and liabilities of the Company are stated at fair value in the balance sheet with the exception of the long term borrowings which are included in the accounts in accordance with FRS 26. The fair value of borrowings is shown below.

	2008		2007	
	Book Value £'000	Fair* Value £'000	Book Value £'000	Fair* Value £'000
Fixed rate yen bank loans	26,775	26,548	26,945	26,943

*The fair value of each bank loan is calculated with reference to a Japanese government bond of comparable yield and maturity.

Gains and losses on forward currency contracts

The following forward currency contracts, the purpose of which is to transfer the currency exposure of a euro dominated investment from euro to yen, were open at 31 August 2008. There were no open forward currency contracts at 31 August 2007.

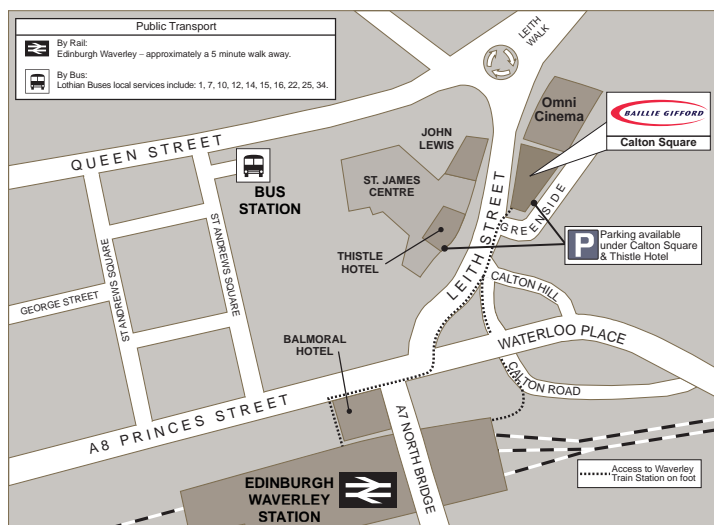
At 31 August 2008

Currency sold	Currency amount sold	Currency bought	Currency amount bought	Settlement date	Fair value £'000
Euro	(€2,230,000)	Sterling	£1,777,000	23/10/08	129
Sterling	(£1,804,000)	Yen	¥380,000,000	23/10/08	(25)
					104

Hedge accounting has not been adopted for these derivatives. Realised currency gains/losses are taken to the capital account and are not reflected in the revenue account unless they are of a revenue nature.

Capital Management

The Company does not have any externally imposed capital requirements. The capital of the Company is the ordinary share capital as detailed in note 13. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on pages 20 and 21, and shares may be repurchased or issued as explained on page 26.



The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on 10 December 2008 at 12.30pm.

If you have any queries as to how to vote or how to attend the meeting, please call us on 0800 027 0133.

Baillie Gifford may record your call.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the twenty-seventh Annual General Meeting of The Baillie Gifford Japan Trust PLC will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Wednesday, 10 December 2008 at 12.30pm for the following purposes.

Ordinary Business

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions.

1. To receive and adopt the Accounts of the Company for the year to 31 August 2008 with the Reports of the Directors and of the Independent Auditors thereon.
2. To approve the Directors' Remuneration Report for the year to 31 August 2008.
3. To re-elect Mr RA Barfield as a Director.
4. To re-elect Mr NAC Bannerman as a Director.
5. To elect Mr MH Paling as a Director.
6. To reappoint PricewaterhouseCoopers LLP as Independent Auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.
7. To authorise the Directors to determine the remuneration of the Independent Auditors of the Company.

Special Business

To consider and, if thought fit, to pass the following resolution as an ordinary resolution.

8. That, pursuant to article 148 of the Articles of Association of the Company, this

meeting hereby approves the continuance of the Company until the Annual General Meeting of the Company held in respect of the year to 31 August 2009.

To consider and, if thought fit, to pass the following resolutions as special resolutions.

9. That, in substitution for any existing authority under section 166 of the Companies Act 1985 (the "Act"), the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of fully paid ordinary shares of 5p each in the capital of the Company ("ordinary shares") (either for retention as treasury shares for future reissue and resale or transfer, or cancellation), provided that:
 - (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 14.99% of the issued ordinary share capital of the Company as at the date of the passing of this resolution;
 - (b) the minimum price which may be paid for an ordinary share is 5p (exclusive of expenses); and
 - (c) the maximum price (exclusive of expenses) which may be paid for a Share shall not be more than the higher of:
 - (i) 105 per cent of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the Shares for the

five business days immediately preceding the date of purchase; and

- (ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange;
- (d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in respect of the year ending 31 August 2009 or on 31 December 2009, whichever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.
10. That, the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the Articles of Association of the Company in substitution for, and to the entire exclusion of, the existing Articles of Association of the Company.

By order of the Board

Baillie Gifford & Co
Managers and Secretaries
29 October 2008

Notes

1. A member entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies to attend, speak and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy for the use of members is enclosed and to be valid must be lodged with the Registrars of the Company not less than 48 hours before the time set for the meeting, or any adjourned meeting. Any Power of Attorney or any other authority under which the proxy is signed (or a duly certified copy of such power of authority) must be included with the proxy form. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.
2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders entered on the Register of Members of the Company as at the close of business on 8 December 2008 or, in the event that the meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the Register of Members after the close of business on 8 December 2008 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the Articles of Association of the Company or other instrument to the contrary.
3. Shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan or the Baillie Gifford Investment Trust ISA who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
4. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
5. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
6. Copies of the New Articles of the Company will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) until the close of the Annual General Meeting at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN. Copies of the New Articles of Association will also be available for inspection at the place of the Annual General Meeting for 15 minutes before and during the meeting.
7. As at 13 October 2008, the latest practicable date prior to publication of this document, the Company had 61,935,000 ordinary shares in issue with a total of 61,935,000 voting rights.
8. Any person holding 3% of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.
9. No Director has a contract of service with the Company.
10. The members of the Company may require the Company to publish, on its website, a statement setting out any matter relating to the audit of the Company's accounts, including the Auditors' Report and the conduct of the audit, which they intend to raise at the next meeting of the Company. The Company will be required to do so once it has received such requests from either (i) members representing at least 5% of the total voting rights of the Company or (ii) at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100.

Appendix to the Notice of Annual General Meeting

Summary of the proposed material changes to the Articles of Association of the Company

The principal changes which would arise from the adoption of the New Articles are set out below.

Electronic and web communications

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic means and/or website communication. The New Articles contain a number of provisions designed to maximise the Company's ability to use electronic systems, including websites, for communication with shareholders.

The New Articles give the Directors the discretion to use electronic communication to distribute notices of meetings, annual reports, accounts and summary financial statements. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when relevant documents or information are placed on the website and a member can always request a hard copy version of the document or information. The use of the electronic communication regime by the Company, will enable the Company to reduce costs, reduce the environmental impact of its business and generally enhance the quality of communication with shareholders.

Form of resolutions and convening meetings

The existing Articles contain provisions referring to "extraordinary" resolutions and "extraordinary" general meetings. These concepts have been abolished under the 2006 Act with effect from 1 October 2007. Meetings of shareholders other than annual general meetings are referred to simply as general meetings. Any resolution requiring a 75% majority will be a "special" resolution.

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform to the new provisions of the 2006 Act. In particular, general meetings to consider special resolutions can now be convened on 14 clear days' notice whereas previously 21 clear days' notice was required. The annual general meeting of the Company still requires 21 clear days' notice.

Ordinary business

Given the nature of the Company, the definition of ordinary business has been extended in the New Articles to include granting, renewing or varying any authority to allot securities in the Company, disapplying pre-emption rights or renewing stock buy-back authority as ordinary business when it is transacted at an annual general meeting of the Company (as these are resolutions customarily proposed at the Company's annual general meetings).

Quorum

In the New Articles, the quorum requirement has been reduced from three members to two members present in person or by proxy and, for the avoidance of doubt, corporate representatives.

Proxies

Under the 2006 Act, proxies are entitled to vote on a show of hands, whereas under the existing Articles proxies are only entitled to vote on a poll. The time limits for the appointment of proxies have also been altered by the 2006 Act so weekends and bank holidays can be excluded for the purposes of the timing for delivery of proxies. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the shareholder. The New Articles reflect these changes.

Corporate representatives

The 2006 Act permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting. However, where multiple corporate representatives exercise votes in different ways, the 2006 Act provides that no votes have been exercised. The New Articles reflect the provisions in the 2006 Act.

Conflicts of interest

The New Articles reflect the new provisions of the 2006 Act in relation to directors' conflicts of interests which came into force on 1 October 2008.

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company, an advisor to the Company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect. The 2006 Act also allows articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

There are safeguards in the New Articles which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision, the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles contain provisions relating to confidential information, attendance at Board meetings and the availability of Board papers to protect a Director being in breach of duty if a conflict of interest or a potential conflict of interest arises. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operating effectively.

It is proposed that the New Articles will contain provisions giving the Directors authority to approve situations involving Directors' conflicts of interest and to allow conflicts of interest to be dealt with by the Board.

Periodic retirement

The Combined Code on Corporate Governance recommends that directors must submit themselves for election by shareholders at the first annual general meeting after their appointment and to re-election thereafter at intervals of no more than three years. The New Articles reflect these provisions.

Indemnity of Officers and Insurance

The existing Articles already provide for the Company to indemnify any Director or other officer of the Company subject to applicable law. The New Articles mirror the new wording in the 2006 Act relating to directors' indemnities, to the extent applicable to the Company, and reflect the current market standard provisions which have evolved since the existing indemnity provisions were adopted.

Requirements for registration of transfer and refusal to transfer

The 2006 Act introduces a new requirement for companies to register transfers or to provide the transferee with reasons for refusal as soon as possible. The New Articles reflect this new requirement.

CREST and the Uncertificated Securities Regulations

The New Articles reflect the Uncertificated Securities Regulations 2001 and the 2006 Act provisions by permitting shareholders holding uncertificated shares to appoint, instruct, amend and revoke proxy appointments using the CREST system.

Articles that duplicate statutory provisions

Certain other provisions in the current Articles which replicate provisions contained in companies legislation are amended to bring them into line with the 2006 Act.

Further Shareholder Information

How to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles (see inside back cover for details). If you are interested in investing directly in Baillie Gifford Japan, you can do so online. There are a number of companies offering real time online dealing services – find out more by visiting the investment trust pages at www.bailliegifford.com.

Sources of Further Information on the Company

The price of shares is quoted daily in the Financial Times and can also be found on the Baillie Gifford website at www.bailliegifford.com, on Trustnet at www.trustnet.co.uk and on other financial websites. Company factsheets are also available on the Baillie Gifford website and are updated monthly. These are available from Baillie Gifford on request.

Key Dates

The Annual Report and Accounts are normally issued in October and the AGM is normally held in November or December.

Capital Gains Tax

The cost for capital gains taxation purposes to shareholders who subscribed for ordinary shares (with warrants attached) is apportioned between the ordinary shares and the warrants on the following basis:

Cost of each ordinary share	96.548p
Cost of fraction for warrant	3.452p
	<hr/> 100.000p

The market value of the ordinary shares on 31 March 1982 (for indexation purposes) was 77p. The market values on 20 November 1991 (first day of dealing of new warrants) were as follows:

Ordinary shares	120p
Warrants	26p

The above cost and market value figures have been restated for the five for one share split in November 2000.

Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0870 889 3221.

This helpline also offers an automated self-service functionality (available 24 hours a day, 7 days a week) which allows you to:

- hear the latest share price;
- confirm your current share holding balance;
- confirm your payment history; and
- order Change of Address, Dividend Bank Mandate and Stock Transfer forms.

By quoting the reference number on your share certificate you can also check your holding on the Registrars' website at www-uk.computershare.com/investor.

They also offer a free, secure share management website service which allows you to:

- view your share portfolio and see the latest market price of your shares;
- calculate the total market price of each shareholding;
- view price histories and trading graphs;
- update bank mandates and change address details; and
- use online dealing services.

To take advantage of this service, please log in at www-uk.computershare.com/investor and enter your Shareholder Reference Number and Company Code (this information can be found on the last dividend voucher or your share certificate).

Baillie Gifford Japan is an investment trust. Investment trusts offer investors the following:

- participation in a diversified portfolio of shares;
- constant supervision by experienced professional managers; and
- the Company is free from capital gains tax on capital profits realised within its portfolio, although investors are still liable for capital gains tax on profits when selling their investment.

Analysis of Shareholders

	At 31 August 2008		At 31 August 2007	
	Number of shares held	%	Number of shares held	%
Institutions	30,829,188	49.8	25,920,075	41.8
Intermediaries	25,288,752	40.8	29,951,849	48.4
Individuals	3,590,533	5.8	3,774,164	6.1
Baillie Gifford Share Plans/ISA	1,873,733	3.0	1,792,803	2.9
Marketmakers	352,794	0.6	496,109	0.8
	61,935,000	100.0	61,935,000	100.0

These accounts have been approved by the Directors of The Baillie Gifford Japan Trust PLC. Baillie Gifford Savings Management Limited is the ISA Manager of the Baillie Gifford Investment Trust ISA and the Manager of the Baillie Gifford Investment Trust Share Plan and Children's Savings Plan. Baillie Gifford Savings Management Limited is wholly owned by Baillie Gifford & Co. Both are authorised and regulated by the Financial Services Authority. Baillie Gifford only provides information about its products and does not provide investment advice. The staff of Baillie Gifford and Baillie Gifford Japan's Directors may hold shares in Baillie Gifford Japan and may buy or sell such shares from time to time.

Risks

Past performance is not a guide to future performance.

Baillie Gifford Japan is listed on the stock market. The value of the shares and any income from those shares is not guaranteed and could go down as well as up. You may not get back the amount you invested. You should view your investment as long term.

As Baillie Gifford Japan invests in overseas securities, changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up.

Baillie Gifford Japan has borrowed money to make further investments (sometimes known as "gearing"). The risk is that when this money is repaid by the Company, the value of the investments may not be enough to cover the borrowing and interest costs, and the Company will make a loss. If the Company's investments fall in value, any borrowings will increase the amount of this loss.

Baillie Gifford Japan can buy back and cancel its own shares. The risks from borrowing, referred to above, are increased when the Company buys back and cancels its shares.

Investment in smaller companies is generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.

Baillie Gifford Japan invests in Japan and single country trusts are generally considered higher risk than those which invest in a number of different countries, as they are exposed to the changes in a single market and currency.

The generation of income is less important than the aim of achieving capital growth and it is unlikely that the Company will provide a steady, or indeed any, income.

Shareholders in Baillie Gifford Japan have the right to vote at the Annual General Meeting on whether to continue the Company, or wind it up. If the shareholders decide to wind the Company up, the assets will be sold and you will receive a cash sum in relation to your shareholding.

Tax rates and reliefs, as well as the tax treatment of ISAs, may change at any time in the future. The value of any tax benefits will depend on your individual circumstances.

Details of other risks that apply to investment in the savings vehicles shown on the inside back cover are contained in the product brochures.

Baillie Gifford Savings Vehicles

Baillie Gifford Japan's shares are traded on the London Stock Exchange. They can be bought through a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles.

Baillie Gifford's Investment Trust Share Plan

You can invest from £250 or from £30 per month. The plan is designed to be a cost effective way of saving on a regular or lump sum basis.

Baillie Gifford's Investment Trust ISA

You can invest in a tax efficient way by investing a minimum of £2,000 or from £100 per month or by transferring an ISA with a value of at least £2,000 from your existing manager.

Baillie Gifford's Children's Savings Plan

A cost effective plan tailored especially to meet the requirements to save for children. You can invest a minimum of £250 or from £30 per month.

Online Management Service

You can now also open and manage your Share Plan and/or ISA online, through our secure Online Management Service (OMS) which can be accessed through the Baillie Gifford website at www.bailliegifford.com. OMS enables you to apply for, open and administer a Baillie Gifford Investment Trust Share Plan or Investment Trust ISA online. As well as being able to view the details of your plan online, the service also allows you to:

- get current valuations;
- make lump sum investments;
- switch between investment trusts (except where there is more than one holder);
- set up a direct debit to make regular investments; and
- update certain personal details.

Further Information

Client Relations Team
Baillie Gifford Savings Management Limited
Calton Square
1 Greenside Row
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Tel: 0800 027 0133
We may record your call

E-mail: trusenquiries@bailliegifford.com
Website: www.bailliegifford.com

Fax: 0131 275 3955

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G Malcolm Murray CBE

Nick AC Bannerman
Richard A Barfield
Martin Barrow CBE
Paul S Dimond CMG

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Brokers

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Company registration No. 75954

Managers, Secretaries and Registered Office

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