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Baillie Gifford Shin Nippon PLC

Annual Report & Accounts
31 January 2000

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ABOUT THE COMPANY

Policy, objectives and benchmark

The Company's policy is to pursue long-term capital growth through investment in small Japanese companies, including those quoted on the Over-The-Counter market, which are believed to have above average prospects for capital growth.

The investment objective of the Company is to achieve a return in excess of the Tokyo Stock Exchange Second Section Index.

As an investment trust company we offer long term professional investment management for individuals and institutions, freedom from capital gains tax on profits realised within the portfolio, the use of gearing to maximise opportunities for capital growth, low costs and simple dealing arrangements.

Capital Structure

The Company's share capital consists of ordinary shares. *Gearing is provided by bank loans.* The Company also has warrants in issue to subscribe for ordinary shares at a price of 200p per share on 30 April in the years 2000 to 2005.

Management Company

Baillie Gifford Shin Nippon is managed by Baillie Gifford & Co. The management contract can be terminated at twelve months' notice.

AITC

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

Baillie Gifford Investment Trust Savings Products

Baillie Gifford Shin Nippon's shares are available through The Baillie Gifford Investment Trust Share Plan and ISA. Further information on these products is shown on page 37. An Investment Trust ISA reply paid card is enclosed for your use. In addition, details of the Share Plan and ISA may be obtained by completing the reply paid card or by contacting:

Baillie Gifford Savings Management Limited
Telephone: 0800 027 0133
Website: www.bailliegifford.co.uk

PERFORMANCE

This graph is shown on a logarithmic scale which, we consider, gives the fairest impression of overall progress.

Directors

A Michael Hathorn CA, CPFA, Chairman, is 51 years old and is senior partner of Scott Moncrieff, Chartered Accountants. He has many years audit experience in the corporate, financial and public sectors.

Gavin JN Gemmell CA, CBE, is 58 years old and is a senior partner of Baillie Gifford & Co. He is a director of Scottish Widows' Fund and Life Assurance Society.

Ian C McLeish CA, is 54 years old and is a manager of The Scottish Investment Trust PLC. He has wide experience of investing in international markets, including Japan.

Barry M Rose FIA, is 54 years old and has wide experience of international investment markets. He is a director of Scottish Provident Institution and is chief executive of Scottish Provident UK.

Managers and Secretaries

The firm of Baillie Gifford & Co was formed in 1927 out of the legal firm of Baillie & Gifford, WVS, which had been involved in investment management since 1908. It has been managing investment trusts since 1909 and is now the UK's fifth largest investment trust manager. It is an independent investment management firm based in Edinburgh, with 19 partners and a staff of around 280.

Baillie Gifford & Co manages 5 other listed investment trust companies and a broad range of open ended investment companies (OEICs) and unit trusts. The firm also manages investment portfolios for pension funds, charities and other institutional clients. Included in these are international funds managed and advised on behalf of Japanese, North American and German clients. Funds under the management and advice of Baillie Gifford & Co are around £22 billion.

Within Baillie Gifford the Japanese investments are managed by a team of eight, three of whom specialise in smaller companies. Sarah Whitley is responsible for the management of Baillie Gifford Shin Nippon and has been involved with the Company since its inception in 1985. She is assisted by Mark Urquhart, who joined Baillie Gifford in 1996 and David Henderson, who has lived and worked in Japan and joined Baillie Gifford in 1998.

The firm of Baillie Gifford & Co is regulated by IMRO.

CHAIRMAN'S STATEMENT

It gives me pleasure to report that over the year, the net asset value per share of Shin Nippon rose by 257.4% to 286.3p on a diluted basis, marking the highest year end level in the Company's history. This compares with sterling adjusted rises of 139.8% for the Company's benchmark Tokyo Stock Exchange Second Section Index and 276.1% for the JASDAQ OTC Index.

Over the past year Japanese equities have returned to investor favour, with smaller companies in Japan producing some of the best performance in world markets. Improvement in overall market sentiment was driven by economic recovery and signs of genuine company restructuring. Most importantly for Shin Nippon the strong interest in technology and Internet related stocks as well as burgeoning service sector companies have boosted performance.

Borrowing and Hedging

The Company has been geared throughout the year, to the benefit of shareholders. The total amount borrowed, which is all in yen bank loans, has risen throughout the year as the assets have grown, and the effective gearing is now 14.0% which compares with 10.2% at the beginning of the year.

At the start of the Company's year we had currency hedging of £6.1m (including both gilts and forward sales of yen), or roughly 24% of net assets, in anticipation that one of the factors helping economic recovery would be a weakening yen. However, by the summer it seemed clear that the economy was improving despite the yen remaining strong and, therefore, the hedge was unwound, at a small loss. At the moment there is no immediate intention to hedge.

Revenue

Shin Nippon's policy has been, and continues to be, one of pursuing capital growth rather than income. Dividend yields have remained low in Japan and the

small gilt holdings we had at the beginning of the year were sold, so overall revenue declined. In addition there was an increase in the cost of borrowings and management fees, both related to the substantial increase in the value of the Company, and this resulted in a revenue loss for the year. The Company usually has such a loss, particularly when fully invested in the market, and no change is likely for the current year.

No dividend is recommended for the year.

Board Changes

John Minall, as indicated in last year's Report, retired from the Board in April 1999, having served on the Board since the Company's inception in 1985. I would like to record my thanks for his long and valued service to the Company. The Board now consists of four members, three of whom are independent of the Managers and all of whom are non-executive.

Outlook

The economic outlook in Japan remains confused. Despite definite improvement in industrial production and output from the service sector, there may be a technical recession of two negative quarters of GDP growth recorded at the end of 1999. This reflects the narrow range of growth sectors and a big disparity between different methods of measuring the economy and the inadequacy of some economic data. The huge public works spending that the government has made over the past two years has severely strained government finances and the external sector is contracting as exports grow more slowly than imports. The overall picture should become clearer as the current year progresses and there are signs that important areas such as capital spending are beginning to recover, but growth is unlikely to be as strong as other industrialised countries.

CHAIRMAN'S STATEMENT

Japan, however, has been fully participating in the strength of the technology and communication boom and is leading the world in the mobile Internet, where data can be accessed by cellular phones. PC sales have been growing rapidly as well as wired Internet diffusion catches up with the USA. The access to such services is likely to have a profound long term impact in Japan, particularly as businesses adopt the net and it is likely that Japan will rapidly catch up on IT spending in general.

Corporate governance standards have continued to improve in Japan, with a continued flow of stock options for growth companies and share buy-backs for undervalued stocks. There have also been changes in how companies access markets with the launch of the Mothers market last December and the NASDAQ Japan coming in June (see page 13 for more information). These markets have less stringent

listing criteria than existing markets, but stricter disclosure standards. Hostile take-over bids have also emerged, although the first domestic one was unsuccessful. Over 200 companies are forecast to list in Japan this year, further increasing the opportunities in the growth sectors.

Many companies, particularly amongst the small stocks, continue to show strong growth, but individual selection remains the key. Although it is difficult to foresee returns similar to the past year I am optimistic about the opportunities in Japan.

Michael Hathorn
8 March 2000

Michael Hathorn
Chairman

RECORD OF REVENUE AND CAPITAL

CAPITAL

At 31 January	Total assets £'000	Bank loans £'000	Equity shareholders' funds £'000	Net asset value per ordinary share p	Diluted net asset value per ordinary share*
1990	26,341	—	26,341	164.2	146.6
1991	19,418	—	19,418	121.0	111.3
1992	22,316	—	22,316	139.0	125.0
1993	19,759	—	19,759	123.1	113.0
1994	28,824	—	28,824	179.6	156.7
1995	42,634	—	42,634	148.5	139.0
1996	50,772	7,738	43,034	149.2	140.1
1997#	38,570	7,710	30,860	97.0	97.0
1998	31,117	7,235	23,882	75.1	75.1
1999	33,325	7,852	25,473	80.1	80.1
2000	109,107	16,714	92,393	290.5	286.3

REVENUE

Year to 31 January	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share† p	Expenses ratio‡ %
1990	154	(143)	(0.89)	1.27
1991	432	94	0.59	1.43
1992	282	(107)	(0.66)	1.79
1993	190	(111)	(0.69)	1.34
1994	258	(133)	(0.83)	1.51
1995	327	(237)	(1.05)	1.48
1996	380	(217)	(0.75)	1.20
1997	342	(404)	(1.34)	1.44
1998	348	(286)	(0.90)	1.53
1999	648	86	0.27	1.40
2000	415	(731)	(2.30)	1.43

Notes

The ordinary shares initially obtained a listing on the London Stock Exchange on 26 June 1985. The new ordinary shares issued as a result of the conversion of the Conversion Shares obtained a listing on 27 July 1994.

No dividends have been declared by the Company during the period covered by the above tables.

* The diluted net asset value per ordinary share figures have been calculated in accordance with FRS 14 'Earnings per share' (see note 16, page 34). The figures for the years 1990 to 1996 have been restated to reflect the revised method of calculation.

† The calculation of earnings per ordinary share is based on the revenue/(deficit) from ordinary activities after taxation and the weighted average number of ordinary shares in issue (see note 7, page 31). With the exception of 1991, there was no dilution of earnings per ordinary share in the years covered by the above tables. The diluted earnings per ordinary share for 1991, calculated in accordance with FRS 14, is 0.53p.

All warrants issued on the original subscription date were exercised by 9 May 1996.

‡ Ratio of total operating costs against the average shareholders' funds.

LIST OF INVESTMENTS AS AT 31 JANUARY 2000 ▶

Name	Where listed	Business	Market value £'000	% of total assets
ELECTRICALS				
Fuji Machine Manufacturing	Nagoya	Production robots	2,769	
Hirose Electric	TOPIX Mid	Electrical and optical connectors	2,040	
Honda Tsushin Kogyo	OTC	Electrical components	830	
Keyence	TOPIX Large	Sensors	1,136	
Koa	TOPIX Small	Electronic resistor manufacturer	1,215	
Megachips	OTC	Integrated circuit manufacturer	714	
Nidec	TOPIX Small	Specialist industrial components	2,101	
Taiyo Yuden	TOPIX Mid	Capacitors and electronic parts	2,335	
Towa	Osaka 2nd	Semiconductor production equipment	577	
Ushio	TOPIX Mid	Specialist lighting	1,359	
Yamaichi Electronics	OTC	Test sockets for integrated circuits	936	
			<u>16,012</u>	14.7
MANUFACTURING AND MACHINERY				
Belteco Corporation	OTC	Maker of kitchen equipment	48	
Daiwa Industries	TOPIX Small	Maker of refrigerated display cabinets	346	
FCC	OTC	Motorbike and car clutches	630	
Fuji Seal	OTC	Packaging materials and machinery	1,599	
Nippon Thompson	TOPIX Small	Needle roller bearings	1,069	
Noritsu Koki	TOPIX Small	Photo developing equipment and supplies	896	
Toami	Osaka 2nd	Specialist construction materials	293	
Tomy	Tokyo 2nd	Toy manufacturer	810	
Zuiko	Osaka 2nd	Nappy making machinery	509	
			<u>6,200</u>	5.7
RETAIL				
C Two-Network	OTC	Food wholesaler and retailer	1,097	
Don Quijote	Tokyo 2nd	Discount retailer	657	
Fanci	TOPIX Other	Specialist cosmetics and food	2,637	
Fast Retailing	TOPIX Mid	Casual wear retailer	4,439	
Hurxley	OTC	Lunchbox retailer	361	
Otsuka Kagu	OTC	Furniture retailer	1,608	
Paris Miki	TOPIX Mid	Retailer of spectacles	2,830	
Ryohin Keikaku	Tokyo 2nd	Own brand retailer	1,743	
Yamada Denki	OTC	Consumer electronics retailer	5,037	
			<u>20,409</u>	18.7

LIST OF INVESTMENTS

Name	Where Listed	Business	Market value £'000	% of total assets
COMMERCE AND SERVICES				
Aucnet	OTC	Auctioneer of cars by satellite	632	
Avex	TOPIX Other	Music production	2,638	
Bellsystem 24	TOPIX Other	Telemarketing	986	
Charle	Osaka 2nd	Women's underwear	139	
Drake Beam Morin-Japan	OTC	Outplacement agency	2,853	
Enix	TOPIX Other	Game software	1,169	
Gakuikusha	OTC	Tuition colleges	238	
Goodwill	OTC	Human resource outsourcing	2,490	
H.I.S.	OTC	Discount travel agency	2,694	
Happinet	Tokyo 2nd	Toy and game retailer	715	
Japan Business Computer	Tokyo 2nd	Computer hardware and software seller	2,512	
Macnica	Tokyo 2nd	Electronic components distribution	115	
Miroku Jyoho Service	Tokyo 2nd	Accounting software	1,004	
Nippon Kanzai	Osaka 2nd	Building maintenance and service	709	
OBIC	Tokyo 2nd	Computer systems and software	3,631	
Oie Sangyo	Osaka 2nd	Specialist food wholesaler	573	
Park24	Tokyo 2nd	Car park operator	1,111	
People	OTC	Operator of fitness clubs	1,912	
Sanix	TOPIX Other	Pest control and waste disposal	1,455	
Software Research Associates	OTC	Computer systems development	680	
Yusen Air & Sea Service	OTC	Air freight forwarding	1,179	
			<u>29,435</u>	26.9
PHARMACEUTICALS AND FOOD				
Ariake Japan	Tokyo 2nd	Natural seasonings	608	
Hokuto	TOPIX Other	Mushroom cultivator	899	
Kawasumi Labs	Tokyo 2nd	Medical equipment	216	
Q'Sai	Tokyo 2nd	Vegetable drinks	1,689	
			<u>3,412</u>	3.1
REAL ESTATE, CONSTRUCTION AND HOUSING				
Able	OTC	Real estate broker	784	
Diamond City	Osaka 2nd	Shopping centre developer	252	
Kanamoto	TOPIX small	Construction machinery rental	338	
Keihanshin Real Estate	Osaka 1st	Property investment	337	
			<u>1,711</u>	1.6

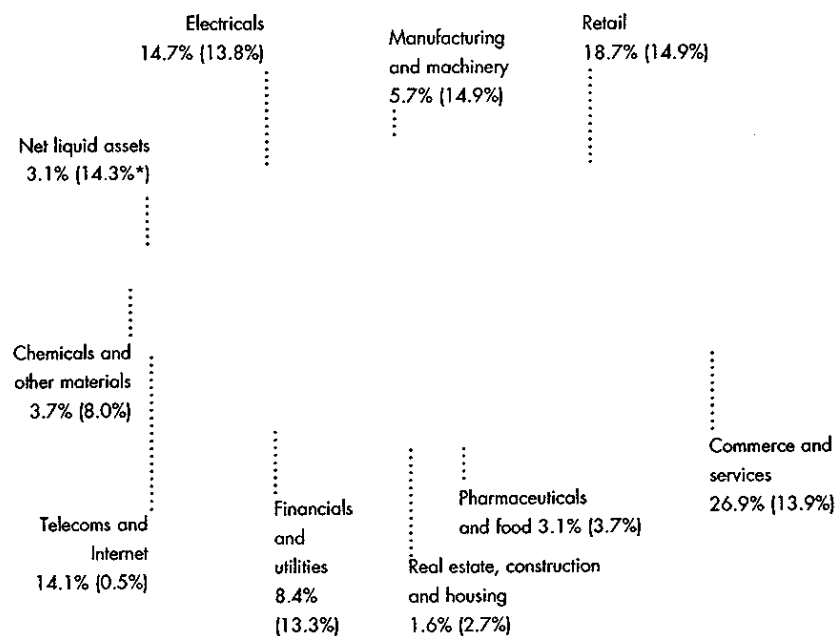
LIST OF INVESTMENTS

Name	Where Listed	Business	Market value £'000	% of total assets
FINANCIALS AND UTILITIES				
Aeon Credit Service	TOPIX Mid	Credit card company	2,967	
Aiful	Tokyo 2nd	Consumer finance	3,218	
Nichiei	TOPIX Mid	Business finance	291	
Nissin	TOPIX Other	Consumer loans and business finance	1,551	
Shohkoh Fund	TOPIX Mid	Business finance	1,190	
			<u>9,217</u>	8.4
TELECOMS AND INTERNET				
Hikari Tsushin	TOPIX Other	Mobile telecommunications	6,393	
Internet Research Institute	Mothers	Internet research and consulting services	382	
Liquid Audio Japan	Mothers	Software for internet music downloading	54	
*Masternet	OTC	Internet service provider	1,228	
Mobile Telecom International	OTC	Mobile telecommunications content	3,170	
Okinawa Cellular Telephone	OTC	Mobile phone operator	4,107	
			<u>15,334</u>	14.1
CHEMICALS AND OTHER MATERIALS				
C Uyemura	Osaka 2nd	Plating chemicals	259	
Kose	OTC	Cosmetics	104	
Mimasu Semiconductor Industry	TOPIX Small	Polishing and processing of silicon wafers	922	
Osaka Organic Chemical	Osaka 2nd	Fine chemicals	251	
Taiyo Ink Manufacturing	OTC	Specialist inks for electronics	2,265	
Yushiro Chemical Industries	Tokyo 2nd	Metalworking oil and polishing agents	194	
			<u>3,995</u>	3.7
TOTAL EQUITY INVESTMENTS			105,725	96.9
NET LIQUID ASSETS			3,382	3.1
TOTAL ASSETS AT MARKET VALUE (before deduction of bank loans)			<u>109,107</u>	<u>100.0</u>
BANK LOANS			(16,714)	(15.3)
EQUITY SHAREHOLDERS' FUNDS			<u>92,393</u>	<u>84.7</u>

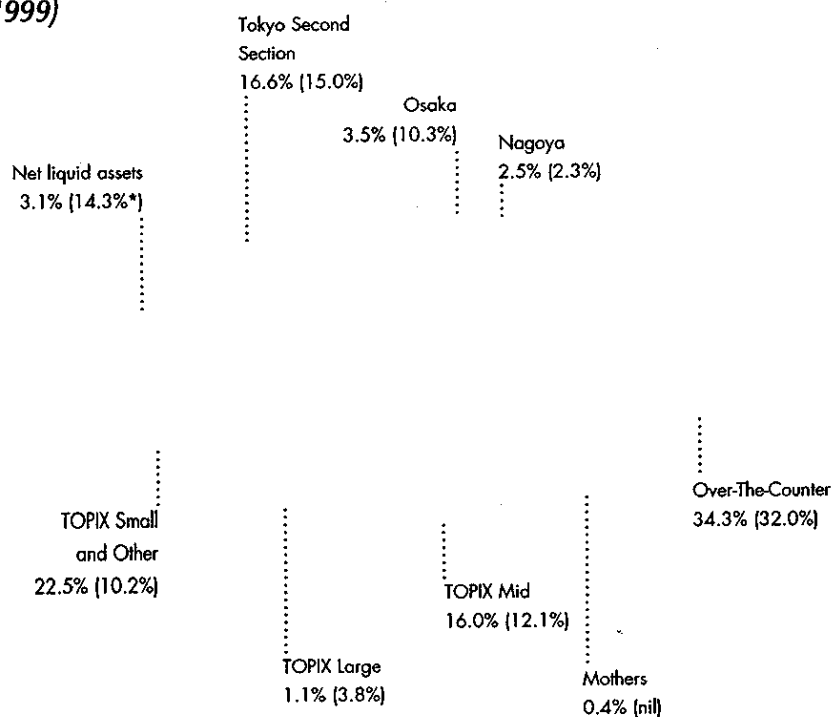
* includes nil paid rights

DISTRIBUTION OF PORTFOLIO

Industry 2000 (1999)



Listing 2000 (1999)



*includes 13.4% in respect of UK gilts.

	Summary of Results		
	31 January 2000	31 January 1999	% change
Equity shareholders' funds	£92,393,000	£25,473,000	+262.7
Net asset value per ordinary share	290.5p	80.1p	+262.7
Diluted net asset value per ordinary share (FRS 14)	286.3p	80.1p	+257.4
TOPIX in sterling terms			+67.1
TOPIX Small Index in sterling terms			+16.7
Tokyo Stock Exchange Second Section in sterling terms			+139.8
JASDAQ Over-The-Counter (OTC) Index in sterling terms			+276.1
Yen/Sterling exchange rate	¥173.50	¥191.02	+10.1

Performance

Smaller companies in Japan have had an exceptionally good year of performance with the Tokyo Stock Exchange Second Section Index rising by 139.8% in sterling terms. As can be seen from the table above, the returns from the three smaller company indices have diverged tremendously over the past year, reflecting the underlying differences in the constituents of the indices and investors varying appetite for growth and value. The JASDAQ OTC Index is dominated by a few large Internet related companies, which have performed staggeringly well, whilst the TOPIX Small Index is influenced by a broad spread of more traditional companies, which have mainly performed poorly. The Second Section contains both growth and value companies and is, therefore, probably the most representative index of the entire small company universe in Japan at the moment.

The diluted net asset value per share has risen by 257.4% over the year, comfortably outperforming the benchmark. This performance has been helped by the gearing that we have had in place throughout the period, but primarily reflects our stock picking approach. Although the general demand background is improving in Japan, the strongest performance has come from companies with a strong management story and with

exposure to the growth sectors of the economy. These sorts of companies have been our focus for some time and this strategy has worked very well in the past year. At the beginning of the Company's year we had borrowings, but also held some gilts as a form of currency hedging. We had some hedging both through the gilts and forward currency contracts on the view that a weak yen would help economic recovery, but this seemed less likely as the year progressed and we unwound the last of the hedging in the summer, at a small loss. The gearing was gradually invested in the market as we became more bullish, and we borrowed more to maintain a similar level of overall gearing as the assets increased.

Economy

The tentative signs of recovery that were seen this time last year have become clearer as Japan has begun to emerge from its worst recession since the war. In retrospect, activity seems to have bottomed in October 1998 when government policy became more focused on stimulating the economy. Confidence has been restored in the financial system by injecting significant amounts of capital into the banks in March 1999 and there have since been announcements of several mergers in the financial sector since as reform continues. Small unquoted companies have also been directly financed by government guaranteed

MANAGERS' REPORT

loans and this has helped corporate confidence. Consumer confidence has also been rising as this unquoted sector employs the bulk of the Japanese workforce and uncertainty about the outlook has been considerably reduced. This is despite rising unemployment as a result of large company restructuring.

As a result of these changes and further stimulus from fiscal spending, GDP rose for the first two calendar quarters of 1999 with both consumer spending and government investment helping growth. However, the picture is more ambiguous at the moment. GDP contracted by 1.0% in the third quarter, quarter on quarter and most commentators expect a further shrinkage in the September to December quarter, signalling a *technical recession*. Despite this, both quarters are still likely to show expansion on a year on year basis. We believe this confusion between the GDP data and the underlying trend of the economy, as reflected by measures such as industrial production and the tertiary sector index, reflects the inadequacies of Japanese economic data rather than a sudden change of direction of the recovery. The exclusion of high spending groups such as young single person households from the consumption data distorts trends and many of the 'new Japan' sectors such as telecoms are either not included, or understated. Our view is therefore that the economy is still expanding at a modest pace, but this is likely to accelerate in 2000 as IT spending, which is currently around 5% of the economy expands rapidly. There are encouraging signs of this so far in 2000, with PC sales rising strongly as consumers buy for Internet usage and companies no longer need to worry about the Y2K problem. Overall machinery orders have rebounded and there is a clear need for companies to catch up with counterparts overseas on IT spending.

Longer term Japan will still need to solve the problem of the huge government debt burden that has been built up during the past few years. The central government has forced local governments to spend on public works, whilst their tax revenues have been falling. Many prefectures are close to insolvency. A recent initiative by the Governor of Tokyo to tax large banks on a size-of-business basis, rather than pre-tax profit, has re-ignited a necessary debate on local government funding.

This may lead to changes in how various sections of the economy are taxed, which would probably help the profitable quoted companies who bear an unfair burden at the moment. Tax accounts for a low percentage of the economy in Japan, so the problem is more one of sharing the burden fairly than cutting expenditure.

Portfolio

We have continued to focus on well managed companies with exposure to the growth areas of the economy. During the past year we have increased our investment in the Telecoms and Internet sector, and at the year end it was 14.1% of the total. This includes six companies, two of which are new listings on the Mothers market (see below for more information). This reflects the immense importance of both the wired and mobile Internet in Japan and the rapid increase in diffusion that is taking place at the moment. The broad category of Commerce and Services has also been increased, as we have expanded the number of companies and invested in several new listings which operate in emerging growth markets such as outplacement and outsourcing. Many of the companies are benefiting from corporate restructuring which is forcing large companies to look more closely at costs. The Retail sector, where there are several fast growing companies with strong business models and a focus on specific markets, has also been increased as stocks have performed well and we have added several new holdings.

Areas that have been reduced are those dependent on government policy, such as Real Estate, Construction and Housing and more cyclical areas such as Chemicals and Other Materials and Manufacturing and Machinery. Many of the older established companies are also suffering from the long term problem of cross-shareholding unwinding, which has been appreciably accelerating in recent months.

Structural changes

During the past year the amount of merger and acquisition activity in Japan has increased significantly. One contested take-over bid was won by the foreign bidder against the domestic one and recently a German company has successfully increased its stake in a pharmaceutical

firm. Although the only domestic hostile bid announced so far was unsuccessful because of group support for the target, the mechanisms for such activity have been improved in Japan over the past year. Bidders can now use shares to buy companies, whereas before they had to use cash and several companies have an explicit plan to grow through acquisition of small unlisted companies that they can buy with shares. Large conglomerates are also looking at their group structures and either buying in or divesting themselves of stakes in their affiliates as changes in reporting are forcing more attention on consolidated entities. This all means that the market in corporate control should develop rapidly and become a useful and powerful agent of change.

In December 1999 a new stock exchange was started in Japan, called the Mothers, which is an inelegant acronym for the Market of High Growth and Emerging Stocks. Listing requirements are less onerous than for other existing markets, whilst disclosure standards are higher, with quarterly results mandatory. This means that companies are now able to list at an earlier stage of their development than before and also list if they are not yet profitable. Another competing market is due to start in the summer, as a joint venture between the NASDAQ in the US and various Japanese companies. This will similarly allow recent start-up companies to list, a fundamental change in Japan where the average age of a company on listing at 32 years has been considerably older than IPOs elsewhere. It does though make such listings inherently riskier, if potentially more rewarding. We have two holdings listed on the Mothers market and are following developments with interest.

The visible rise of entrepreneurs in Japan, such as Mr Shigeta of Hikari Tsushin, the Company's

largest holding, and several presidents in their twenties in some newer listings has begun to change the corporate climate. With the increasing availability of venture capital finance and the shortened period from start-up to listing the number of interesting and attractive companies that are coming to the market is expected to increase and we continue to look for opportunities in this area.

Outlook

The polarisation of the market in the past year has, to a certain extent, reflected the divergence in corporate fundamentals between the new Japan of the Internet and related areas and the old Japan of the immediate post war period. By number, most small companies in Japan suffered a fall in share price over the past year, but the excellent performance of a smaller number of companies, some of which make up large parts of the indices, has boosted overall performance. The improving performance of the general economy, which we expect in the current year, will help many of the areas that have performed less well, but we believe that the key to stock price performance remains the attitude of management. Whilst many companies are very cheap, this is also true of more mature areas in other markets and in Japan underperforming managements are still less likely to lose control. We, therefore, continue to look for exciting opportunities in the expanding areas and remain optimistic about the outlook for smaller companies in Japan.

Baillie Gifford & Co
8 March 2000

REVIEW OF INVESTMENTS

TWENTY LARGEST HOLDINGS

Name	Business	Market value £'000	% of total assets
Hikari Tsushin	Mobile telecommunications	6,393	5.9
Yamada Denki	Consumer electronics retailer	5,037	4.6
Fast Retailing	Casual wear retailer	4,439	4.1
Okinawa Cellular Telephone	Mobile phone operator	4,107	3.8
OBIC	Computer systems and software	3,631	3.3
Aiful	Consumer finance	3,218	2.9
Mobile Telecom International	Mobile telecommunications content	3,170	2.9
Aeon Credit Service	Credit card company	2,967	2.7
Drake Beam Morin-Japan	Outplacement agency	2,853	2.6
Paris Miki	Retailer of spectacles	2,830	2.6
Fuji Machine Manufacturing	Production robots	2,769	2.5
H.I.S.	Discount travel agency	2,694	2.5
Avex	Music production	2,638	2.4
Fandl	Specialist cosmetics and food	2,637	2.4
Japan Business Computer	Computer hardware and software seller	2,512	2.3
Goodwill	Human resource outsourcing	2,490	2.3
Taiyo Yuden	Capacitors and electronic parts	2,335	2.1
Taiyo Ink Manufacturing	Specialist inks for electronics	2,265	2.1
Nidec	Specialist industrial components	2,101	1.9
Hirose Electric	Electrical and optical connectors	2,040	1.9
		63,126	

On this and the following five pages we give a review of the Company's ten largest investments together with some of the Company's new acquisitions. The Company's largest investments that are quoted on the Over-The-Counter market have additional information to comply with London Stock Exchange requirements. We thank the various companies concerned for supplying photographs of their activities.

Hikari Tsushin

5.9% of total assets

Hikari Tsushin is Japan's leading telecommunications subscription agency, selling mobile phones and telecommunication services for several operators through its "Hit Shop" chain. The company receives recurring revenues based upon subscriber usage, which due to the strong demand for mobile phones and the increased usage of both voice and data applications has meant rapid growth. Sales and earnings at the August year end were up year on year 62% and 95% respectively and growth is expected to remain strong. The company is also involved in offering e-commerce services to small businesses, credit card services and is also a leading Internet venture capitalist with 40 investee companies planning to list in the next year.

One of Hikari Tsushin's Hit Shops

Yamada Denki

4.6% of total assets

Yamada Denki continues to consolidate its position as one of the leading electrical goods retailers in Japan, moving from being the number 4 in the industry last year to number 2 at present. The company's success is based on a very low cost format with stores operating at lower gross margins than many other listed competitors. This concept continues to be rolled out outside the company's home base of Gumma prefecture, north of Tokyo, and they have recently opened large format stores that are making further market share gains. Sales have been growing at a rapid pace, and management has a firm control

over costs recently revamping the distribution system. Earnings are expected to continue to grow rapidly following a 75% increase last year.

Holding	76,000
Proportion of company owned	0.35%
Book value per share	¥2,355
Market price	¥11,500
Sales (¥bn) for the year 31.03.99	¥242.8
Earnings per share	¥196.8
Dividend per share	¥23
Dividend received in the year to 31.01.2000	¥23
Quoted	OTC

Fast Retailing

4.1% of total assets

Fast Retailing is a designer and retailer of private label casual wear for both men and women. A recently opened flagship store in Harajuku has raised the profile of the company and its ability to market its products through its 355 stores nationwide. Several successful product launches at extremely competitive prices have boosted same store trading, leading to upward profit revisions.

This year, management intends opening a further 50 stores based around the company's successful Uni-Qlo brand. We believe that improved same store sales, new store openings, together with the management's commitment towards tight operational control should lead to attractive returns.

Okinawa Cellular Telephone

3.8% of total assets

Okinawa Cellular is the dominant cellular phone company in the Japanese prefecture of Okinawa, with a market share of 56%. Okinawa Cellular has an exclusive distribution agreement with Hikari Tsushin in Okinawa and a solid record of subscriber growth. A focus on profitability saw earnings last year increase 26%. The forthcoming merger between DDI, Okinawa Cellular's parent company, and two other telecommunication companies is also expected to be positive.

Holding	750
Proportion of company owned	1.1%
Book value per share	¥373,544
Market price	¥950,000
Sales (¥bn) for the year 31.03.99	¥27.0
Earnings per share	¥12,693
Dividend per share	¥1,750
Dividend received in the year to 31.01.2000	¥1,750
Quoted	OTC

Demand for Internet compatible phones is increasing rapidly

REVIEW OF INVESTMENTS

OBIC

3.3% of total assets

OBIC provides computer network integration, office automation consultation and system support services to over 10,000 middle sized companies. It is not tied to any corporate group and so is able to offer impartial advice on the optimal solutions for its clients, utilising the company's general platform software "OBIC 7". The company has a policy of only accepting new work if the gross profit margin is over 40%, which has meant relatively low sales growth but earnings growing at a compound 40% over the past 5 years. OBIC has retained a 30% stake in subsidiary OBIC Business Consultants, a maker of package software that made a very successful stockmarket debut in 1999, trebling on its launch.

OBIC's general platform software "OBIC 7"

Aiful

2.9% of total assets

Aiful is Japan's fourth largest consumer finance company. The main product is an unsecured loan facility that can be set up at one of the company's unmanned loan-contract machines. Aiful also offers home loans and small business financing. The business offers high profit margins, as lending rates are generally quite high and financing costs low. Strong demand and a lack of effective banking competition have meant that the loan book has grown rapidly in recent years. Profits should continue to rise as the loan balance expands.

A typical Aiful outlet

Mobile Telecom International

2.9% of total assets

MTI, a new listing in 1999, has two businesses, mail order retailing of mobile phones and mobile phone data content and voice mail services. Both businesses are for the non-NTT DoCoMo based telecommunication companies. The former is benefiting from the rapid growth of cellular handsets in Japan, whilst the latter business, in which MTI is the market leader, will exploit the demand for data services, as phone technology becomes increasingly sophisticated and as connection charges fall. Given the success of CDMA phones in 1999, MTI appears well

positioned in this lucrative niche of a rapidly expanding market.

Holding	50
Proportion of company owned	0.09%
Book value per share	¥5,260,535
Market price	¥11,000,000
Sales (¥bn) for the year 31.03.99	¥7.5
Earnings per share	¥5,068
Dividend per share	¥333
Dividend received in the year to 31.01.2000	-
Quoted	OTC

Aeon Credit Service

2.7% of total assets

Aeon Credit is a credit card company affiliated to major retailer Jusco. The acceptance of credit cards in Japan continues to grow rapidly, with Aeon Credit having over 9.2 million card users by the end of 1999, up from 8.5 million since February. Management has been successfully expanding the number of stores at which its cards can be used, in tie-ups with non-Jusco group companies, and increasing the convenience of usage by aggressively adding to the number of Aeon cash dispensers and automatic teller machines. The result is expected to be strong double-digit growth in both the value of shopping transactions and the value of card cashing. The cost of funding remains low, reflecting the authorities near zero interest rate policy. The company also has a successful Hong Kong subsidiary.

Credit card usage in Japan is growing strongly

Drake Beam Morin-Japan

2.6% of total assets

Drake Beam Morin provides outplacement consultancy services for white-collar workers. In what is a fledgling market in Japan, corporate restructuring and increasing job mobility have created strong growth opportunities, giving Drake Beam Morin the chance to develop a strong first mover advantage. The company's recurring revenue stream provides excellent operational gearing and is already providing high margins. Last year Drake Beam Morin's earnings grew 23% and it is anticipated that this will further accelerate this year.

Holding	18,000
Proportion of company owned	0.65%
Book value per share	¥8,239
Market price	¥27,500
Sales (¥bn) for the year 31.03.99	¥1.7
Earnings per share	¥82.7
Dividend per share	¥15
Dividend received in the year to 31.01.2000	-
Quoted	OTC

Paris Miki

2.6% of total assets

Paris Miki operates Japan's largest chain of opticians and is over double the size of its nearest competitor. The company also has subsidiaries overseas. Management has a good record of delivering both sales and earnings growth and with increasing economies of scale, particularly purchasing power, the company should continue to gain market share at the expense of small operators. As a speciality retailer the company boasts one of Japan's highest levels of profitability and the near-term earnings outlook appears favourable owing to the sale of high margin products and services such as multi-focal lenses, thin lenses and the use of a unique computer-based graphic design system for tailoring glasses to customers' faces. The long-term outlook is also positive with Japan's ageing population increasing the potential size of the market.

Paris Miki, Japan's largest optical retailer

REVIEW OF INVESTMENTS

NEW HOLDINGS

Japan Business Computer

2.3% of total assets

JBC, 36% owned by IBM Japan, is Japan's largest IBM dealer, dealing with small and medium sized companies. Having been reliant on hardware sales, principally office computers, personal computers and related peripherals, the company is successfully growing in the more profitable software, support and maintenance areas, which

together account for 45% of sales and 55% of profits. Management is also expanding into the higher margin, client network management business. The company has historically been conservative in its profit forecasts and in each of the past three years has beaten its own estimates by a considerable margin.

Goodwill

2.3% of total assets

The Goodwill Group, a new listing in 1999, develops employment opportunities within Japan's changing economy. The company seeks opportunities which are characterised by low capital investment and low fixed costs, but have a need for sophisticated management systems. The businesses they have started include blue-collar outsourcing, back office functions for Hikari Tsushin, head-hunting for software engineers and care services for the elderly. Growth has been rapid and is expected to continue.

Goodwill is providing care services for Japan's ageing population

Q'Sai

1.5% of total assets

Q'Sai manufactures and sells frozen and processed foods. The company's core product is kale juice sold door to door under the brand name Aojiru. Public recognition of the health qualities of this juice has meant that this product is enjoying rapid growth, in 1999 sales grew 24% year on year. This rise has helped the company beat its earlier sales and profit forecasts, and together with a reorganisation of the company's sales agent and delivery network, should lead to solid earnings growth. The company has recently made an acquisition of an organic food business, which will further boost growth.

Inspecting the kale crop

Masternet

1.1% of total assets

Masternet is an Internet service provider to both individuals and corporations. The core of the business is a 10 yen e-mail service that has seen buoyant growth in 1999 which operates on mobile telephones with e-mail functionality sold by

NTT DoCoMo. In addition, new optional services such as providing on-line stock information are proving very popular. The interim results reported that the number of subscribers had tripled year on year, with profits up 11 fold.

Bellsystem 24

0.9% of total assets

Bellsystem 24 is Japan's leading telemarketing firm. With the growth of the Internet and e-commerce transactions beginning to build momentum the demand for call centre services is growing quickly. In addition, deregulation in the

telecommunications industry and the changes occurring in the financial industry are expected to lead to strong demand for Bellsystem 24's services. The company has strong management, focused on improving returns to investors.

Bellsystem 24's telemarketing staff in action

DIRECTORS' REPORT

The Directors submit their Annual Report together with the results of the Company for the year to 31 January 2000.

Review of Activities

During the year under review the Company has followed the normal activities of an investment trust company. A review of the main features of the year is contained in the Chairman's Statement and in the Managers' Report and the Review of Investments on the preceding pages.

Dividend

The Board does not recommend any dividend for the year.

The accumulated revenue deficit is increased by £731,000 to £2,243,000.

Status

The Company has received approval as an Investment Trust from the Inland Revenue in respect of the year to 31 January 1999 and has subsequently directed its affairs so as to enable it to continue to seek such approval.

The Company is an investment company within the meaning of section 266 of the Companies Act 1985.

Corporate Governance

The Committee on Corporate Governance published its report on the principles of good governance and code of best practice ('the Combined Code') in June 1998.

The Board has considered the principles set out in the Combined Code and believes that the Company's current practice, given the special circumstances of an Investment Trust Company is, in all material respects, consistent with the principles of the Combined Code.

The Principles of Good Governance

The Board

The Board's regular meetings take place every two months. It has a number of matters reserved for its approval, including investment policy, borrowings, treasury matters and dividend policy. The Board also reviews the financial statements, investment transactions, revenue budgets and performance.

The Board currently comprises four Directors all of whom are non-executives and three of whom are independent of the Company's Managers. Mr GJN Gemmell is a partner of Baillie Gifford & Co. The executive responsibilities for investment management have been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co, and in the context of a Board comprised entirely of non-executive Directors, there is no chief executive officer. Mr AM Hathorn was appointed Chairman in 1998 and is also the senior independent member. The Directors all have appropriate business and financial experience with which to conduct the business of the Board. Information about them can be found on page 3.

Given the non-executive nature of the Board a separate nomination committee has not been established. It is the view of the Board that the appointment of new Directors should be a matter for consideration by the Board as a whole. Upon appointment each Director is provided with a summary of the responsibilities and duties of Directors, together with relevant background information on the Company. Consistent with the recommendation of the Code of Best Practice, the Board will arrange appropriate training for new Directors where necessary.

Under the provisions of the Company's Articles, a Director appointed during the year is required to retire and seek election by shareholders at the next General Meeting. The Articles also require that one third of the Directors retire by rotation and submit themselves for re-election with the proviso that no Director shall serve for a period greater than three consecutive years without submitting himself for re-election.

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

Remuneration

Since all Directors are non-executive, the Company is not required to comply with principles B.1 to B.3 of the Combined Code in respect of executive Directors' remuneration. There is no separate remuneration committee and the Board as a whole considers recommendations put forward by the Managers and Secretaries, from time to time, for changes in Directors' fees.

In setting Directors' fee levels it is the Company's policy to take account of fees paid by comparable investment trusts to ensure that remuneration is sufficient to attract Directors of the appropriate quality and experience.

No Director has a contract of service and there is no notice period. Directors' fees are detailed in note 4 on page 30; no other benefits are provided.

Internal Control

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 is responsible 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 Company's investments are segregated from those of Baillie Gifford & Co and its other clients through the appointment of The Fuji Bank, Ltd and The Bank of New York Europe Limited as independent custodians of the Company's investments.

Baillie Gifford & Co has an established compliance function in accordance with IMRO regulations. The compliance function provides the Board with a report on monitoring procedures at least annually. In addition, Baillie Gifford & Co conducts an annual review of its internal controls which is documented within an internal controls report. This report is independently reviewed and is approved by Baillie Gifford & Co's auditors. A copy of the internal controls report is submitted to the Board. Baillie Gifford & Co has expanded its compliance department to establish an internal audit function responsible for ensuring that all significant strategic, commercial relationship, investment and operational risks are effectively controlled by management.

The Directors acknowledge their responsibility for the Company's system of internal financial controls, which is designed to provide reasonable but not absolute assurance against material misstatement or loss, and confirm that they have reviewed the effectiveness of the system.

In limiting their review to internal financial control, the Directors have adopted the transitional approach recommended by the London Stock Exchange in respect of the implementation of the guidance "Internal Control: Guidance for Directors on the Combined Code".

The Board expects to have procedures in place by June 2000 necessary to implement the guidance on the wider aspects of internal controls. By June 2000, the Directors are confident that the following processes will be established in compliance with the guidance:

- Internal controls strategy formalised following the production of a risk map whereby significant risks are identified and the key controls to manage these risks are confirmed as in place and operating effectively.
- Reporting procedures for the internal audit function, in respect of its risk framework monitoring and audit programme, and the compliance department, in respect of its regulatory monitoring programme, are defined and formalised within a service level agreement.
- Regular reports on internal control submitted for Board review.

In setting internal control policies, the Board has reviewed the guidance provided by the AITC and have adopted their recommendations as they relate to a wholly non-executive Board and where the executive function of investment management and administration have been out-sourced to external service providers.

DIRECTORS' REPORT

Accountability and Audit

The respective responsibilities of the Directors and the auditors in connection with the financial statements are set out on pages 24 and 25.

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.

An audit committee has been established in compliance with the Combined Code consisting of all independent non-executive Directors. Its authority and duties are clearly defined within its written terms of reference. The Chairman of the Board has been appointed Chairman of the Audit Committee. The committee meets periodically to review the Company's interim and annual financial statements. It meets at least annually with the external auditors and approves the level of fees for audit and non-audit services.

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 and the Audit Committee regularly reviews the terms of the management agreement.

Relations with Shareholders

The Company's Managers meet regularly with institutional shareholders and report to the Board. The Company's Annual General Meeting provides a forum for communication with private shareholders and the Board announces the level of proxies lodged. The notice period of the Annual General Meeting has been extended to twenty working days.

Compliance

The Board considers that throughout the year it has complied fully with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance. In addition, the Board considers that throughout the year the Company has been in compliance with the Combined Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange, with the exception of the appointment of a nomination committee, the absence of which has been explained above. As permitted by the London Stock Exchange, the Company has complied with the Combined Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for Directors on internal control and financial reporting that was issued in December 1994.

Directors

The Directors at the end of the year under review, and their beneficial interests in the Company, were as follows:

Name	31 January 2000		31 January 1999	
	Ordinary shares	Warrants	Ordinary shares	Warrants
† AM Hathorn	555	111	555	111
GJN Gemmell	225,450	-	225,450	-
† IC McLeish	4,885	-	5,000	-
† BM Rose	22,582	-	22,582	-

Mr GJN Gemmell retires by rotation and, being eligible, is recommended by the Board for re-election.

Mr JC Minall retired from the Board on 23 April 1999.

Mr IC McLeish is an occasional saver in the Baillie Gifford Investment Trust Share Plan and by this method he acquired an additional 744 shares on 29 February 2000.

There have been no other changes intimated in the Directors' interests up to 3 March 2000.

No Director has a contract of service with the Company.

† Member of the Audit Committee.

Substantial Holdings

The following information has been intimated to the Company as at 3 March 2000 in compliance with section 198 of the Companies Act 1985:

Name	Number of ordinary 10p shares held	% of issue
A & OT Investments Limited*	2,300,000	7.23
Lazard Asset Management	2,300,000	7.23
Baillie Gifford (Personal Pensions) International Fund*	1,350,000	4.24
Sand Aire Generation Fund	1,280,000	4.02
Co-operative Insurance Society Ltd	1,225,630	3.85
Britannic Assurance Public Limited Company	1,000,000	3.14

* Discretionary client of Baillie Gifford & Co.

Share Capital

The Directors have again reviewed their position in relation to seeking shareholders' authority to purchase a proportion of the Company's own shares for cancellation. It was the Board's view that such a proposal was not appropriate at the current time, particularly as it remains optimistic about opportunities in Japan. The Board has agreed to keep this matter under regular review.

Creditor Payment Policy

It is the Company's payment policy for the forthcoming financial year to get 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 31 January 2000.

Year 2000 Compliance

Baillie Gifford's Year 2000 compliance project, which extended to seeking reassurance from major external suppliers regarding Year 2000 issues, was complete in all critical areas by the end of December 1999. To date there has been no disruption to Baillie Gifford Shin Nippon's business operations resulting from the date change to the Year 2000. The Managers have assured the Directors that they will continue to monitor the situation as part of an ongoing project of monitoring its systems and operations.

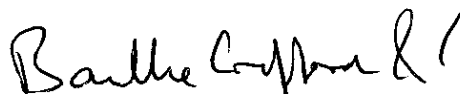
The costs associated with implementing the Year 2000 review are borne by Baillie Gifford & Co, and therefore no provision has been made in Baillie Gifford Shin Nippon's accounts for Year 2000 expenses.

Auditors

The auditors, PricewaterhouseCoopers, are willing to continue in office and in accordance with sections 385 and 390A of the Companies Act 1985 resolutions concerning their reappointment and remuneration will be submitted to the Annual General Meeting.

By order of the Board

BAILLIE GIFFORD & Co
Managers and Secretaries
8 March 2000



STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss 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 applicable accounting standards have been followed, 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.

The Directors are responsible for ensuring that proper accounting records are kept 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.

STATEMENT OF TOTAL RETURN
(incorporating the revenue account*)

	Notes	for the year ended 31 January 2000			for the year ended 31 January 1999		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	8	-	68,973	68,973	-	2,411	2,411
Currency losses	15	-	(1,322)	(1,322)	-	(906)	(906)
Income	2	415	-	415	648	-	648
Investment management fee	3	(694)	-	(694)	(232)	-	(232)
Other administrative expenses	4	(150)	-	(150)	(113)	-	(113)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		(429)	67,651	67,222	303	1,505	1,808
Finance costs of borrowings	5	(255)	-	(255)	(183)	-	(183)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		(684)	67,651	66,967	120	1,505	1,625
Tax on ordinary activities	6	(47)	-	(47)	(34)	-	(34)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		(731)	67,651	66,920	86	1,505	1,591
<i>for the financial year attributable to equity shareholders</i>							
TRANSFER (FROM)/TO RESERVES		(731)	67,651	66,920	86	1,505	1,591
RETURN PER ORDINARY SHARE	7	(2.30p)	212.71p	210.41p	0.27p	4.73p	5.00p

There was no dilution of the above returns in either year.

* The revenue column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
The accompanying notes are an integral part of this statement.

BALANCE SHEET

		at 31 January 2000		at 31 January 1999	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Investments	8		105,725		33,016
CURRENT ASSETS					
Debtors	10	2,866		581	
Cash at bank and in hand		3,741		779	
		<u>6,607</u>		<u>1,360</u>	
CREDITORS					
Amounts falling due within one year	11	<u>(8,988)</u>		<u>(4,977)</u>	
NET CURRENT LIABILITIES			<u>(2,381)</u>	<u>(3,617)</u>	
TOTAL ASSETS					
less current liabilities			103,344		29,399
CREDITORS					
Amounts falling due after more than one year	12		<u>(10,951)</u>		<u>(3,926)</u>
			<u>92,393</u>		<u>25,473</u>
CAPITAL AND RESERVES					
Called-up share capital	14		3,181		3,181
Share premium			6,616		6,616
Capital redemption reserve			21,400		21,400
Capital reserve – realised	15		8,385		1,963
Capital reserve – unrealised	15		55,054		(6,175)
Revenue reserve	15		(2,243)		(1,512)
EQUITY SHAREHOLDERS' FUNDS			<u>92,393</u>	<u>25,473</u>	
NET ASSET VALUE PER ORDINARY SHARE: 16					
Basic			290.5p		80.1p
Diluted (FRS 14)			286.3p		80.1p
Fully diluted			283.9p		80.1p

The Accounts were approved by the Board and signed on their behalf on 8 March 2000.

Michael Harker

Chairman

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

		for the year ended 31 January 2000		for the year ended 31 January 1999	
Notes	£'000	£'000	£'000	£'000	£'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	18		(206)		297
SERVICING OF FINANCE					
Interest paid		(192)		(180)	
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(192)		(180)
TAXATION					
Income tax repaid/(paid)		113		(113)	
Overseas tax suffered		(46)		(35)	
TOTAL TAX REPAID/(PAID)			67		(148)
FINANCIAL INVESTMENT					
Acquisitions of investments		(26,370)		(15,168)	
Disposals of investments		22,182		11,711	
Realised currency losses		(274)		(230)	
NET CASH OUTFLOW FROM FINANCIAL INVESTMENT			(4,462)		(3,687)
NET CASH OUTFLOW BEFORE FINANCING			(4,793)		(3,718)
FINANCING					
Bank loans drawn down		13,134		-	
Bank loans repaid		(5,379)		-	
NET CASH INFLOW FROM FINANCING			7,755		-
INCREASE/(DECREASE) IN CASH	19		2,962		(3,718)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	19				
Increase/(decrease) in cash in the period			2,962		(3,718)
Net cash received from bank loans drawn down			(7,755)		-
Exchange movement on bank loans			(1,107)		(617)
MOVEMENT IN NET DEBT IN THE PERIOD			(5,900)		(4,335)
NET DEBT AT 1 FEBRUARY 1999			(7,073)		(2,738)
NET DEBT AT 31 JANUARY 2000			(12,973)		(7,073)

The accompanying notes are an integral part of this statement.

1 PRINCIPAL ACCOUNTING POLICIES

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

(a) BASIS OF ACCOUNTING

The accounts are prepared 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 accounts have been prepared in accordance with applicable UK accounting standards and with the Statement of Recommended Practice 'Financial statements of investment trust companies'.

(b) INVESTMENTS

UK listed investments are shown at middle market value.

Listed investments and unlisted investments quoted on the Japanese Over-The-Counter market are shown at closing market prices.

Other unlisted investments are shown at a valuation determined by the Directors based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate.

(c) 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. Income from convertible securities having an element of equity is recognised on an accruals basis.

(ii) Interest from fixed interest securities is recognised on an accruals basis.

(iii) Franked and unfranked investment income include the imputed tax credits or taxes deducted at source.

(iv) Interest receivable on bank deposits is dealt with on an accruals basis.

(d) EXPENSES

All expenses are accounted for on an accruals basis and are charged through 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.

(e) FINANCE COSTS

Finance costs are accounted for on an accruals basis and are charged through the revenue account.

(f) FOREIGN CURRENCIES

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Assets and liabilities in foreign currencies are translated at the closing rates of exchange at the balance sheet date, with the exception of forward 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 capital reserve or revenue reserve as appropriate.

(g) CAPITAL RESERVES

Realised: Gains and losses on realisation of investments and realised exchange differences of a capital nature are dealt with in this reserve.

Unrealised: Unrealised appreciation/depreciation represents the amount by which the market value of assets and liabilities differs from their book value and is dealt with in this reserve.

NOTES TO ACCOUNTS

	2000	1999
	£'000	£'000
2 INCOME		
INCOME FROM INVESTMENTS		
Listed UK interest	95	402
Listed overseas interest	3	-
Listed overseas dividends	220	138
Unlisted overseas dividends	92	92
	410	632
OTHER INCOME		
Deposit interest	5	16
TOTAL INCOME	415	648

3 INVESTMENT MANAGEMENT FEE—*all charged to revenue*

Investment management fee	675	225
Irrecoverable VAT thereon	19	7
	694	232

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 per cent of the shareholders' funds of the Company on the last day of each quarter, and is subject to VAT at the appropriate rate.

Mr GJN Gemmell, a Director of the Company, is a partner of Baillie Gifford & Co.

4 OTHER ADMINISTRATIVE EXPENSES—*all charged to revenue*

General administrative expenses	111	70
Directors' fees	33	38
Auditors' remuneration—audit services	6	5
	150	113

The Chairman's emoluments amounted to £10,000 (1999—£8,280). Mr GJN Gemmell received emoluments of £7,000 (1999—£7,000). Mr I Mcleish and Mr B Rose, who were appointed on 28 August 1998, each received emoluments of £7,000 (1999—£2,986). Mr JC Minall, who retired on 23 April 1999, received emoluments of £1,586 (1999—£7,000). In the year to 31 January 1999 Mr DC Ritchie and Mr G Veitch, both of whom retired on 28 August 1998, received emoluments of £5,761 and £4,033 respectively. No pension contributions were made in respect of the Directors.

5 FINANCE COSTS OF BORROWINGS—*all charged to revenue*

On bank loans	255	183
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6 TAX ON ORDINARY ACTIVITIES

Overseas taxation	47	34
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Unrelieved management expenses are available to be carried forward and may be offset against future taxable profits.

NOTES TO ACCOUNTS ▶

	2000			1999		
	Revenue	Capital	Total	Revenue	Capital	Total
7 RETURN PER ORDINARY SHARE	(2.30p)	212.71p	210.41p	0.27p	4.73p	5.00p

Revenue return per ordinary share is based on the net deficit on ordinary activities after taxation of £731,000 (1999—revenue of £86,000) and on 31,805,357 ordinary shares, being the number of ordinary shares in issue throughout each year.

Capital return per ordinary share is based on the net capital gains for the financial year of £67,651,000 (1999—£1,505,000) and on 31,805,357 ordinary shares, being the number of ordinary shares in issue throughout each year.

There was no dilution of the above returns in either year as the average price of the ordinary shares was less than the exercise price of the warrants. The number of outstanding warrants throughout each year was 2,518,031.

8 FIXED ASSETS—INVESTMENTS	2000	1999
	£'000	£'000
Listed at market value – UK	–	4,466
– overseas	68,529	17,894
Unlisted traded on (or underlying stock traded on) the Japanese Over-The-Counter market	37,196	10,656
	<u>105,725</u>	<u>33,016</u>

	Listed in UK £'000	Listed overseas £'000	Unlisted £'000	Total £'000
Cost of investments held at 1 February 1999	4,495	21,554	15,024	41,073
Unrealised depreciation at 1 February 1999	(29)	(3,660)	(4,368)	(8,057)
Value of investments held at 1 February 1999	4,466	17,894	10,656	33,016
Movements in year:				
Purchases at cost	–	16,575	11,786	28,361
Sales—proceeds	(4,422)	(10,658)	(9,545)	(24,625)
– realised gains/(losses) on sales	(73)	4,343	1,792	6,062
Movement in unrealised appreciation/(depreciation)	29	38,182	24,700	62,911
Change in listing	–	2,193	(2,193)	–
Value of investments held at 31 January 2000	–	68,529	37,196	105,725
Cost of investments held at 31 January 2000	–	34,007	16,864	50,871
Unrealised appreciation at 31 January 2000	–	34,522	20,332	54,854
Value of investments held at 31 January 2000	–	68,529	37,196	105,725

GAINS ON INVESTMENTS	2000	1999
	£'000	£'000
Realised gains/(losses) on sales	6,062	(1,890)
Movement in unrealised appreciation/(depreciation)	62,911	4,301
	<u>68,973</u>	<u>2,411</u>

NOTES TO ACCOUNTS

9 FINANCIAL ASSETS

A full list of the Company's investments is given on pages 7 to 9. In addition, an analysis of the portfolio by broad industrial or commercial sector is shown on page 10 and a list of the twenty largest investments by their aggregate market value, is shown on page 14. All financial assets and liabilities are included in the accounts at market value (see note 1).

Exposure to currency risk is restricted, in the main, to fluctuations in the Japanese yen.

The Company's financial assets at 31 January 2000 included cash deposits, an analysis of which is shown below.

2000
£'000

Cash:

UK deposits

Japanese yen deposits

17

3,724

3,741

The cash deposits generally comprise call or short term money market deposits of less than one month. Short term debtors and creditors have been excluded from the disclosure of financial instruments.

10 DEBTORS

2000
£'000

1999
£'000

Amounts falling due within one year:

Income accrued

21

110

UK and withholding taxes deductible therefrom

(3)

(21)

18

89

Sales for subsequent settlement

2,792

349

Taxation recoverable

-

132

Other debtors

56

11

2,866

581

11 CREDITORS

Amounts falling due within one year:

Purchases for subsequent settlement

2,830

839

Bank loans (see note 12)

5,763

3,926

Forward contract

-

59

Other creditors and accruals

395

153

8,988

4,977

Included in other creditors is £231,000 (1999-£64,000) in respect of the investment management fee.

12 CREDITORS

Amounts falling due after more than one year:

Bank loans:

Repayable in less than five years

5,764

3,926

Repayable after more than five years

5,187

-

10,951

3,926

Bank loans

Bank loans of ¥2.9 billion have been drawn down under yen loan facilities which are repayable between December 2000 and May 2005 (31 January 1999-¥1.5 billion). The amount repayable after more than five years is in respect of a ¥0.9 billion 2.325% bank loan repayable in May 2005. The interest rate risk and maturity profiles of the bank loans are shown in note 13.

13 FINANCIAL LIABILITIES

The interest rate risk profile of the Company's financial liabilities at 31 January 2000 was:

	Market value £'000	Weighted average interest rate	Weighted average period until maturity
<i>Bank loans</i>			
Yen denominated – fixed rate	16,714	2.0	37 months
		2000	
		£'000	
<i>Maturity profile:</i>			
In one year or less, or on demand		5,763	
In more than one year, but not more than two years		–	
In more than two years, but not more than five years		5,764	
In more than five years		5,187	
		<u>16,714</u>	

All borrowings are stated at market value.

Short term debtors and creditors have been excluded from the disclosure of financial instruments.

Gains and losses on hedges

At 31 January 2000 there were no unrecognised gains/losses on hedges. During the year forward sales of yen totalling £7.1 million realised losses of £280,000, of which £59,000 had been provided for as an unrealised loss at 31 January 1999. Currency profits/losses are taken to capital reserve and are not reflected in the profit and loss account unless they are of a revenue nature.

14 CALLED-UP SHARE CAPITAL

	2000 £'000	1999 £'000
Authorised:		
Ordinary shares – 37,000,000 shares of 10p each	3,700	3,700
Allotted, issued and fully paid:		
Ordinary shares – 31,805,357 shares of 10p each	3,181	3,181

At 31 January 2000 there were 31,805,357 ordinary 10p shares and 2,518,031 warrants in issue. Each of the warrants entitles the holder to subscribe for one ordinary share at 200p each on 30 April in the years 2000 to 2005.

Warrants are not separately reported as part of shareholders' funds as required by FRS 4 as the amounts concerned are considered to be immaterial.

15 RESERVES

	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 1 February 1999	1,963	(6,175)	(1,512)
Net gain on realisation of investments	6,062	–	–
Movement in unrealised appreciation/(depreciation)	–	62,911	–
Exchange differences on yen loans	634	(1,741)	–
Exchange differences on forward contracts	(280)	59	–
Other exchange differences	6	–	–
Retained net deficit for the year	–	–	[731]
At 31 January 2000	<u>8,385</u>	<u>55,054</u>	<u>(2,243)</u>

NOTES TO ACCOUNTS

16 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:

	2000	1999	2000	1999
			£'000	£'000
Ordinary shares—basic	290.5p	80.1p	92,393	25,473
– diluted (FRS 14)	286.3p	80.1p	92,393	–
– fully diluted	283.9p	80.1p	97,429	–

The movements during the year of the assets attributable to the ordinary shares were as follows:

Total net assets at 1 February 1999	25,473
Total recognised gains and losses for the year	66,920
Total net assets at 31 January 2000	<u>92,393</u>

Net asset value per ordinary share is based on net assets as shown above and 31,805,357 ordinary shares, being the number of ordinary shares in issue at each date.

The diluted net asset value per ordinary share, calculated in accordance with Financial Reporting Standard 14 (FRS 14) is 286.3p. This is based on net assets of £92,393,000 and on 32,276,208 ordinary shares, being the number of ordinary shares in issue at the year end plus the notional number of ordinary shares that would have been issued for no consideration using a year end share price of 246p.

The fully diluted net asset value per ordinary share has been calculated on the assumption that the warrants in issue were fully exercised at the year end at 200p each resulting in net assets of £97,429,000 and 34,323,388 ordinary shares in issue.

There was no dilution of net asset value at 31 January 1999.

The number of outstanding warrants at each year end date was 2,518,031.

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Shareholders' funds at 1 February 1999	25,473	23,882
Total recognised gains and losses for the year	66,920	1,591
Shareholders' funds at 31 January 2000	<u>92,393</u>	<u>25,473</u>

18 RECONCILIATION OF NET (DEFICIT)/REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

Net (deficit)/revenue on ordinary activities before finance costs and taxation	(429)	303
Decrease/(increase) in accrued income	89	(15)
(Increase)/decrease in debtors	(45)	6
Increase in creditors	179	3
	<u>(206)</u>	<u>297</u>

19 ANALYSIS OF CHANGE IN NET DEBT

	At 1 February 1999 £'000	Cash flow £'000	Other non-cash changes £'000	Exchange movement £'000	At 31 January 2000 £'000
Cash at bank and in hand	779	2,962	–	–	3,741
loans due within one year	(3,926)	2,728	(3,926)	(639)	(5,763)
loans due after one year	(3,926)	(10,483)	3,926	(468)	(10,951)
	<u>(7,073)</u>	<u>(4,793)</u>	<u>–</u>	<u>(1,107)</u>	<u>(12,973)</u>

20 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 31 January 2000 there were contingent liabilities of £26,000 (1999 – nil) in respect of uncalled capital on investments.

21 DIRECTORS' INTERESTS IN CONTRACTS

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, other than the Management Agreement referred to in note 3.

22 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company operates as an Investment Trust Company in accordance with Section 842 of the Taxes Act 1988. The international nature of the Company's investment activities provides opportunities for both market appreciation and currency gains, but leaves it exposed to the risk of market volatility and currency fluctuations.

In the case of an investment trust, capital profits from investing activities and currency gains are not recognised in the revenue account, but are credited directly to a separate capital reserve which the Company is prohibited from distributing in the form of dividends.

The Company makes use of gearing (long and short term borrowings) to achieve improved performance in rising markets.

The Company's revenue account may be affected by fluctuations in short term interest rates; income from overseas investment can be affected by currency fluctuations.

The Company's financial instruments which provide finance for investment activities comprise bank borrowings, cash and liquid resources. In addition, the Company maintains financial assets comprising a portfolio of Japanese equities and corporate bonds as part of its investment strategy.

The Company may, from time to time, enter into derivative transactions to hedge specific currency risk. The loss arising from forward sales of yen, to hedge against yen weakness, has been identified as exchange differences on forward contracts (see note 13).

The Company has precisely defined guidelines to govern transactions involving futures, contracts for differences and options. No transactions involving futures, contracts for differences or options, were undertaken in the year under review.

Trading in financial instruments is not within the normal activities of an investment trust, nor is it the Company's policy to trade in such instruments. Transactions in financial instruments generally arise as a result of strategic investment decisions.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Company's Managers may not enter into derivative transactions without the prior approval of the Board, and all borrowing facilities require Board authorisation. The Board agrees policies for managing risk with the Company's Managers.

Interest Rate Risk

The Company finances its operations by means of realised capital profits and bank borrowings.

The Company has negotiated yen bank borrowings, repayable between December 2000 and May 2005, at fixed rates of interest. In addition, the Company maintains a £4 million undrawn overdraft facility with The Bank of New York Europe Limited.

Liquidity Risk

The Company's policy with regard to liquidity is to ensure continuity of funding. Short term flexibility is achieved by overdraft facilities.

The Company's assets comprise mainly readily realisable securities which can be sold freely to meet funding commitments if necessary.

Foreign Currency Risk

The international nature of the Company's investment activities gives rise to a currency risk which is inherent in the performance of its overseas investments. It is not the Company's policy to hedge this risk on a continuing basis, but the Company may from time to time hedge against yen weakness through forward sales of yen.

The revenue account is subject to currency fluctuation arising on overseas income. The Company does not hedge this currency risk.

FURTHER SHAREHOLDER INFORMATION

Publication of share price and performance statistics

The Company's ordinary share price is quoted in the *Financial Times*, *The Daily Telegraph*, *The Scotsman* and *The Herald*. The warrant price is quoted in the *Financial Times* and *The Daily Telegraph*. Prices are also available from the London Stock Exchange website <http://www.londonstockexchange.com/>

Net asset values are quoted daily on the Baillie Gifford website: www.bailliegifford.co.uk.

Net asset value and share price performance statistics are available from the Association of Investment Trust Companies brochureline on 0207 431 5222.

Financial Calendar

The Company publishes half-yearly progress reports. Shareholders are welcome at the Annual General Meeting to be held on 27 April 2000. The calendar for 2000 is set out below:

January	Financial year end
February	Final preliminary results announced
March	Annual Report and Accounts issued
April	Annual General Meeting
May	2 May – date for exercise of warrants (at warrant holders' discretion)
August	Interim results to 31 July announced
September	Interim Report issued

Capital Gains Tax

The Directors have been advised that the cost for capital gains tax purposes to shareholders who subscribed for ordinary shares (with warrants attached) is apportioned between the ordinary shares and the warrants on the following basis:

	Apportioned cost	First day of dealing value
Cost of each ordinary share	47.25p	44.5p
Cost of fraction for warrant	2.75p	13.5p
	<u>50.00p</u>	

The cost for capital gains tax purposes to shareholders who subscribed for the conversion shares, subsequently converted into new ordinary shares (with warrants attached) is apportioned between the ordinary shares and the warrants as set out in the placing and offer document dated 18 May 1994. The attributable costs are:

	Apportioned cost	First day of dealing value
Cost of each ordinary share	164.81p	178.0p
Cost of each warrant 2005	76.85p	83.0p

If shareholders are in any doubt as to their personal taxation position they should consult their professional advisers.

Ways to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by investors either by placing an order with a stockbroker or by asking a professional adviser, e.g. lawyer, accountant or independent financial adviser, to do so on their behalf. They are also available through The Baillie Gifford Investment Trust Share Plan and ISA as referred to on page 37.

BAILLIE GIFFORD INVESTMENT TRUST SAVINGS PRODUCTS

The Association of Investment Trust Companies' advertising campaign – known as the its campaign – is currently under way to promote investment trusts. Baillie Gifford Shin Nippon PLC and Baillie Gifford are giving the its campaign their full support and an information pack is available on request. In addition to a Share Plan or ISA brochure – or both – the pack will contain:

- *Invest the easy way* – which explains investment trusts and their benefits and gives details of Baillie Gifford's range of investment trusts.
- *Investment Trust Bulletin* – which gives 5 year past performance records and other general information.

The Baillie Gifford Investment Trust Share Plan has been established for the investment trusts managed by Baillie Gifford & Co. The plan enables current shareholders and others to invest in Shin Nippon by making occasional payments (minimum £250), or regular payments (minimum £30 per month) or by reinvesting dividends.

The Baillie Gifford Investment Trust ISA offers a choice of a Maxi or Mini ISA in the stocks and shares component of an ISA, allowing current shareholders and others to invest up to a maximum of £7,000 in 1999/2000 (£5,000 per annum thereafter) for a Maxi ISA and £3,000 per annum for a Mini ISA.

Unlike PEPs, ISAs are not subject to the restriction that qualifying funds must have 50% of their assets within the European Union. Investors may choose to invest in a maximum of two of the six trusts currently managed by Baillie Gifford.

It is only possible to subscribe to one Maxi ISA or one stocks and shares component Mini ISA during one tax year. If you already subscribe to an ISA on a continuing basis (i.e. the arrangement is carried forward from one tax year to the next), please note this restriction.

Since 6 April 1999 investors have not been able to make further subscriptions to a PEP but they can continue to hold their PEP outside an ISA and to benefit from the same tax concessions that apply to ISAs.

Details of the Share Plan and ISA may be obtained by contacting:

Baillie Gifford Savings Management Limited,
1 Rutland Court,
Edinburgh EH3 8EY.

Private investors call: 0800 027 0133

Intermediaries call: 0800 027 0132

Email: trusenquiries@bailliegyfford.co.uk

Website: www.bailliegyfford.co.uk

Baillie Gifford Savings Management Limited is regulated by IMRO

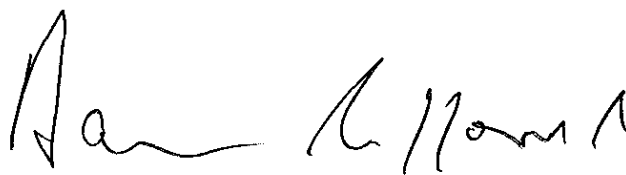
Please remember that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and an investor may not get back the amount originally invested. Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the fifteenth Annual General Meeting of Baillie Gifford Shin Nippon PLC will be held within the Registered Office of the Company, 1 Rutland Court, Edinburgh EH3 8EY, on Thursday, 27 April 2000 at 12.30 pm for the following purposes:

Ordinary Business

1. To approve the Accounts of the Company for the year ended 31 January 2000 with the Report of the Directors and of the Auditors thereon.
2. To reelect Mr GJN Gemmell as a Director.
3. To reappoint PricewaterhouseCoopers as Auditors.
4. To authorise the Directors to fix the remuneration of the Auditors.



By Order of the Board
BAILLIE GIFFORD & Co
Managers and Secretaries
24 March 2000

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and on a poll vote on his/her behalf. A proxy need not be a member of the Company. A Form of Proxy is enclosed.
2. Only holders of ordinary shares are entitled to attend or be represented at the meeting.
3. Shareholders participating in the Baillie Gifford Investment Trust Share Plan and/or the Baillie Gifford Investment Trust ISA/PEP may vote and/or attend the meeting on application to their respective plan administrator as detailed in the terms and conditions of the plans.
4. No Director has a contract of service with the Company.

DIRECTORS

Chairman
AM Hathorn

GJN Gemmell CBE
IC McLeish
BM Rose

MANAGERS, SECRETARIES
AND REGISTERED OFFICE

Baillie Gifford & Co
1 Rutland Court
Edinburgh EH3 8EY
Telephone: 0131 222 4000
Website: www.bailliegifford.co.uk

REGISTRARS

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Edinburgh EH11 4BR
Telephone: 0870 702 0010

BROKERS

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AUDITORS

PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
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PO Box 90
68-73 Queen Street
Edinburgh EH2 4NH

Company Registration No. 93345