

BAILLIE GIFFORD SHIN NIPPON PLC

Investing in new
opportunities in Japan



Annual Report and Financial Statements
31 January 2016



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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

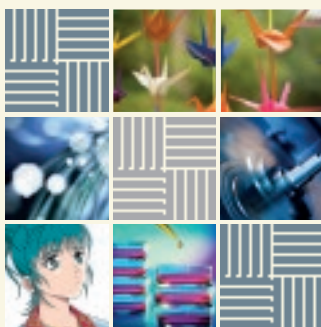
If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your ordinary shares in Baillie Gifford Shin Nippon PLC, please forward this document and the accompanying form of proxy 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.

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 Conduct Authority.

Baillie Gifford Shin Nippon PLC currently conducts its affairs, and intends to continue to conduct its affairs, so that the Company's Ordinary Shares can qualify to be considered as a mainstream investment product and can be recommended by Independent Financial Advisers (IFAs) to ordinary retail investors in accordance with the rules of the Financial Conduct Authority (FCA) in relation to non-mainstream investment products.



Shin Nippon's objective is to pursue long term capital growth through investment principally in small Japanese companies.

Financial Highlights – Year to 31 January 2016

Share Price +39.6%

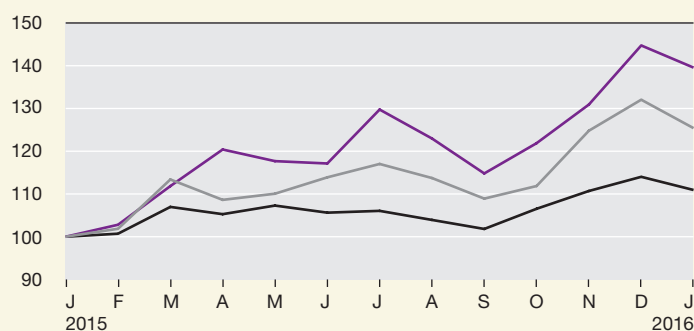
NAV +25.4%

Comparative Index* +10.9%

NAV, Share Price and Comparative Index

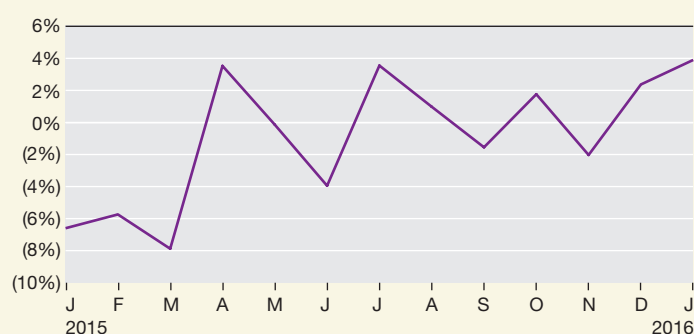
(figures rebased to 100 at 31 January 2015)

- Share price
- NAV (after deducting borrowings at fair value)
- Comparative Index*



(Discount)/Premium

- (Discount)/Premium (after deducting borrowings at fair value) plotted as at month end dates



* The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms).

Source: Thomson Reuters Datastream/Baillie Gifford.

Past performance is not a guide to future performance.

Investor Disclosure Document

The EU Alternative Investment Fund Managers Directive requires certain information to be made available to investors prior to their investment in the Company. The Company's Investor Disclosure Document is available for viewing at www.shinnippon.co.uk.

Strategic Report

This Strategic Report, which includes pages 2 to 19 and incorporates the Chairman's Statement has been prepared in accordance with the Companies Act 2006.

Chairman's Statement

I have pleasure in presenting my first report to you as your Chairman. Your Board reviews performance principally over rolling three year periods and I am delighted to report that in the three years to 31 January 2016, Shin Nippon's net asset value per share rose by 103.7% and its share price rose by 99.9% versus the comparative index (MSCI Japan Small Cap Index, total return in sterling terms) return of 47.4%. This was a period of strong performance in both absolute and relative terms.

Over the year to 31 January 2016 the Company's net asset value increased by 25.4% versus the comparative index return of 10.9%. The Company's share price also performed very well with an increase of 39.6% over the year. The past 12 months have been a good year for your Company.

Change of Portfolio Manager

On 1 December 2015, the Company's Portfolio Manager of 8 years, John MacDougall, stepped down to take up another role at Baillie Gifford, covering Global Equities. During John's time as Portfolio Manager the Company's performance was strong and, with the rest of the Board, I would like to thank John and wish him well in his new role.

I am pleased to welcome our new Portfolio Manager, Praveen Kumar, to the Company. Praveen has been an investment manager in the Baillie Gifford Japanese Equities team since 2011 and worked closely with John MacDougall over the 12 months prior to taking over from John in December last year. The Board look forward to working with Praveen. In his first report to you, you will find a detailed explanation of the Company's performance and also some of the holdings.

Share Issuance

During the year the Company issued 600,000 shares (1.6% of the Company's share capital at 31 January 2015) at an average premium to net asset value of 3.6% raising £2.5m.

Borrowings

The Company's gearing at the year end was equivalent to 9% of net assets and the borrowings were beneficial to performance over the year. Our Manager continues to find interesting companies in which to invest and as a consequence this gearing level is likely to be maintained.

Revenue

Our revenue return per share improved from a loss of 1.01 pence per share last year to a loss of 0.78 pence per share this year. This was due to a 16% increase in portfolio dividend income and lower loan interest costs. These positive effects more than offset the higher management fee, which increased with the growth in net asset value.

AGM

At this year's AGM we are again seeking authority to issue new shares of up to 10% of the Company's share capital. Any shares issued would be for cash, on a non pre-emptive basis, and only at a premium to net asset value thus enhancing the net asset value for existing shareholders.

Approval will again be sought to renew our authority to buy back shares. This would enable the Company to buy back shares if the discount to net asset value is substantial in absolute terms or in relation to its peers, should that be deemed desirable. Any such activity would enhance the net asset value attributable to existing shareholders.

Outlook

Shin Nippon is very much a stock picking fund and our new Portfolio Manager, Praveen, continues to find new, innovative companies with disruptive technologies. Praveen spent 6 weeks in Japan in the early part of the year, visiting existing holdings and potential new investments. His view of the market is positive with new exciting opportunities to be found.

Although the pace of economic change is modest there are encouraging signs that company boards are continuing to embrace improved corporate governance and that external non-executive input has now been recognised as a benefit to these businesses.

Inbound tourism has risen rapidly over the last few years most notably by visitors from China. Chinese tourists spend most of their money on shopping including rice cookers, personal care and luxury brand items and the Company has some exposure to this theme in its portfolio.

In addition, Japan's ageing population and labour shortage are creating new opportunities for Japanese entrepreneurs to create new solutions which in time could benefit the patient investor.

Your Board continues to be encouraged by the number of companies that show real opportunity for growth and both the Board and the Managers remain encouraged by the outlook.

More detailed information about the Company's Portfolio is contained within the Manager's report on page 9.

M Neil Donaldson
24 March 2016

Past performance is not a guide to future performance.

Year's Summary

	31 January 2016	31 January 2015	% change	
Total assets (before deduction of bank loan)	£182.8m	£147.5m		
Bank loan	£19.4m	£18.9m		
Shareholders' funds	£163.4m	£128.6m		
Net asset value per ordinary share (after deducting borrowings at fair value)	431.0p	343.7p		25.4
Net asset value per ordinary share (after deducting borrowings at par value)	432.3p	345.8p		25.0
Share price	448.0p	321.0p		39.6
Comparative Index*				10.9
Yen/sterling exchange rate	171.73	176.42		2.7
Premium/(discount) (after deducting borrowings at fair value)	3.9%	(6.6%)		
Premium/(discount) (after deducting borrowings at par value)	3.6%	(7.2%)		
Revenue earnings per ordinary share	(0.78p)	(1.01p)		
Ongoing charges	1.02%	1.14%		
Active share†	94%	94%		
Year to 31 January	2016	2016	2015	2015
Year's high and low	High	Low	High	Low
Net asset value per ordinary share (after deducting borrowings at fair value)	453.9p	328.2p	343.7p	265.5p
Net asset value per ordinary share (after deducting borrowings at par value)	455.2p	330.2p	345.8p	267.9p
Share price	468.0p	317.0p	334.8p	284.0p
Premium/(discount) (after deducting borrowings at fair value)	7.7%	(11.9%)	12.9%	(9.3%)
Premium/(discount) (after deducting borrowings at par value)	7.2%	(12.4%)	11.9%	(9.9%)
	31 January 2016	31 January 2015		
Net return per ordinary share				
Revenue return	(0.78p)	(1.01p)		
Capital return	87.14p	36.35p		
Total return	86.36p	35.34p		

* The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms).

† See Glossary on page 56.

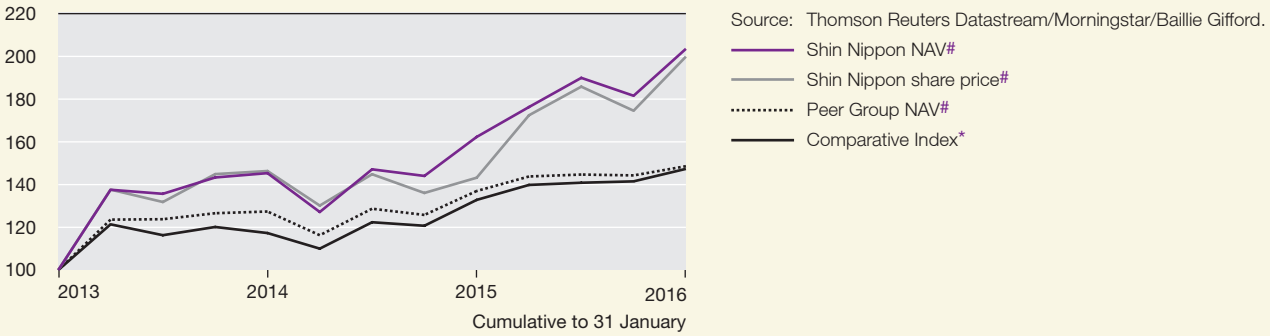
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Three Year and Five Year Performance Summary

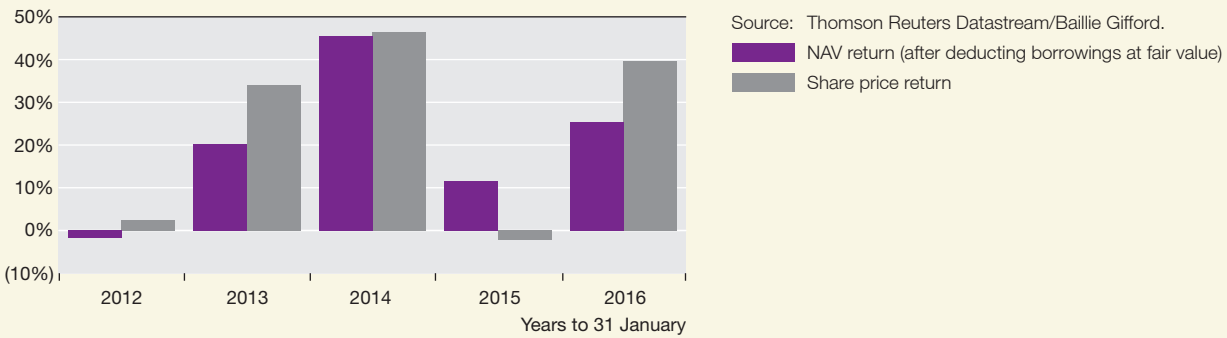
The following charts indicate how an investment in Shin Nippon has performed relative to its comparative index, peer group and its underlying net asset value over three and five year periods to 31 January 2016.

Three Year Performance

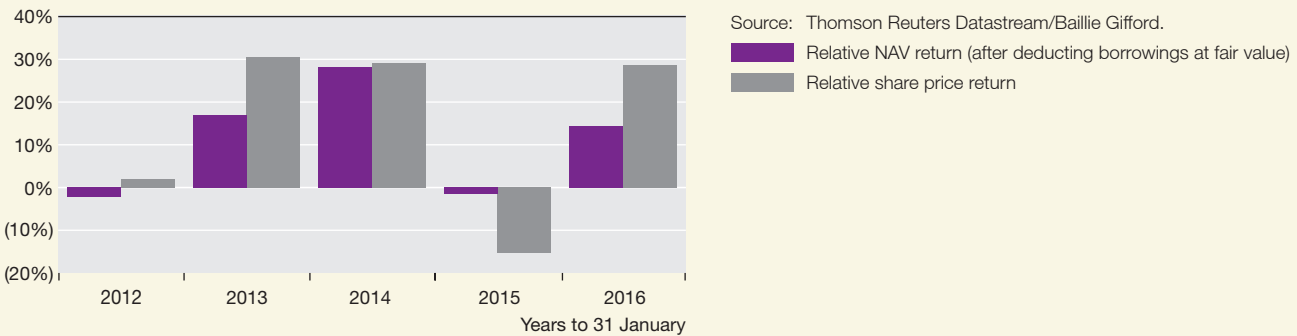
(figures rebased to 100 at 31 January 2013)



Annual change in Net Asset Value and Share Price



Annual change in Net Asset Value and Share Price relative to the Comparative Index*



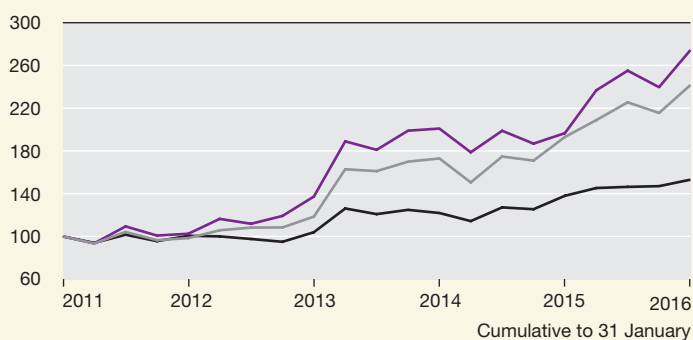
Total return. NAV data is after deducting borrowings at par value. AIC peer group comprises: Atlantis Japan Growth, Fidelity Japanese Values, JP Morgan Japanese Smaller Companies and Prospect Japan; data is unweighted.

* The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms).

Past performance is not a guide to future performance.

Five Year Performance

(figures rebased to 100 at 31 January 2011)



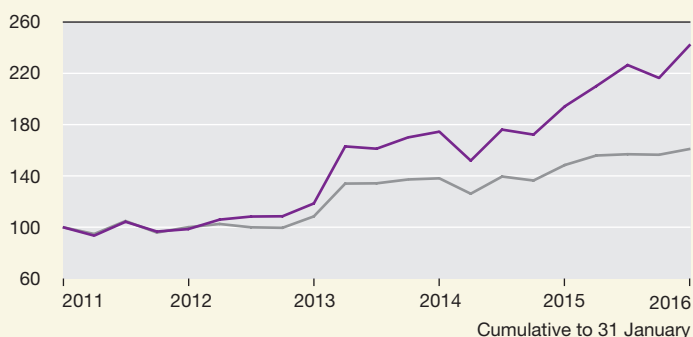
Source: Thomson Reuters Datastream/Baillie Gifford.

- Share price
- NAV (after deducting borrowings at fair value)
- Comparative Index*

* The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms).

Five Year Peer Group Performance

(figures rebased to 100 at 31 January 2011)



Source: Morningstar/Baillie Gifford.

- Shin Nippon
- Peer Group†

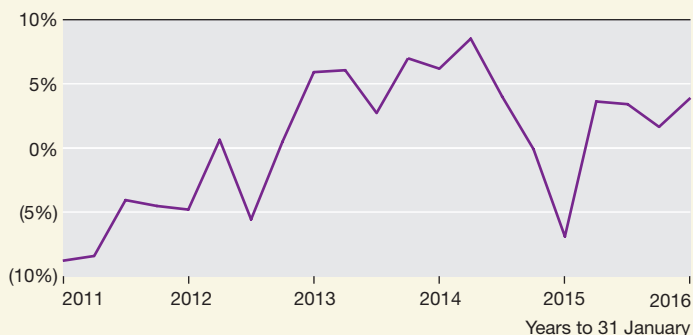
NAV total return (after deducting borrowings at par value) in sterling terms.

† AIC peer group comprises: Atlantis Japan Growth, Fidelity Japanese Values, JP Morgan Japanese Smaller Companies and Prospect Japan.

Data is unweighted.

(Discount)/Premium to Net Asset Value

(plotted on a quarterly basis)

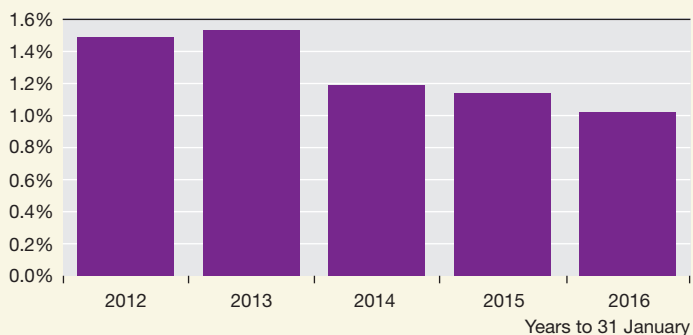


Source: Thomson Reuters Datastream/Baillie Gifford.

- Shin Nippon (discount)/premium

The (discount)/premium is the difference between Shin Nippon's underlying net asset value per share (after deducting borrowings at fair value) and its quoted share price expressed as a percentage of the net asset value per share.

Ongoing Charges



Source: Baillie Gifford.

Ongoing charges are calculated as total operating costs divided by average net asset value.

Past performance is not a guide to future performance.

Business Review

Business Model

Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006 and carries on business as an investment trust. Investment trusts are UK public listed companies and their shares are traded on the London Stock Exchange. They invest in a portfolio of assets in order to spread risk. The Company has a fixed share capital although, subject to shareholder approval sought annually, it may purchase its own shares or issue shares. The price of shares is determined, like other listed shares, by supply and demand.

The Company has been approved as an investment trust by HM Revenue & Customs subject to the Company continuing to meet the eligibility conditions. The Directors are of the opinion that the Company has continued to conduct its affairs so as to enable it to comply with the ongoing requirements of Section 1158 of the Corporation Tax Act 2010.

The Company is an Alternative Investment Fund (AIF) for the purposes of the EU Alternative Investment Fund Managers Directive.

Objective and Policy

Baillie Gifford Shin Nippon's objective is to pursue long term capital growth through investment principally in small Japanese companies which are believed to have above average prospects for growth. The Board and Managers currently consider a small company to be one that has either market capitalisation or turnover of less than ¥150 billion. The Company is classified by the AIC within its Japanese Smaller Companies sector.

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 comparative index, 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 75 holdings. Although sector concentration and the thematic characteristics of the portfolio are carefully monitored, there are no maximum limits to deviation from comparative index stock or sector weights.

On acquisition, no holding shall exceed 3% of the portfolio 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 continue to be held where the Managers are convinced of the ongoing merits of the investment case.

The Company may invest in UK and Overseas domiciled pooled funds, including UK listed investment trusts, that invest principally in Japanese securities. On acquisition, no more than 15% of the Company's gross assets will be invested in such companies or funds.

From time to time, fixed interest holdings, or non equity investments, may be held on an opportunistic basis. 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. Although the Company may have maximum equity gearing of 50% of shareholders' funds, the Board would seek to have a maximum equity gearing level of 30% of shareholders' funds at the time of drawdown.

Borrowings are typically invested in securities when it is considered that investment grounds merit the Company taking a geared position to securities. Gearing levels, and the extent of equity gearing, are discussed by the Board and Managers at every Board meeting. The Managers are tasked with ensuring that gearing is managed efficiently and within the parameters set by the Board and any loan covenants.

A detailed analysis of the Company's Investment Portfolio is set out on pages 17 and 18 and in the Managers' Report and Review of Investments on pages 9 to 16.

Performance

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

Key Performance Indicators

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 share compared to the comparative index;
- the movement in the share price;
- the discount/premium of the share price to the net asset value per share; and
- the ongoing charges.

These are also compared against the Company's peers. Performance is assessed over periods of one, three and five years.

A historical record of the KPIs is shown on pages 3 to 5 and on page 19.

Principal Risks

As explained on pages 25 and 26 there is a process for identifying, evaluating and managing the risks faced by the Company on a regular basis. The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A description of these risks and how they are being managed or mitigated is set out below:

Financial Risk – The Company's assets consist 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 17 to the Financial Statements on pages 46 to 49. To mitigate this risk the Board considers at each meeting various portfolio metrics including individual stock performance and weightings, the top and bottom contributors to performance and relative sector weightings against the comparative index. The Manager provides rationale for stock selection decisions. A comprehensive strategy meeting is held annually to facilitate challenge of the Company's strategy.

Regulatory Risk – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment companies, the UKLA Listing Rules and the Companies Act could lead to suspension of the Company's Stock Exchange listing, financial penalties, a qualified audit report or the Company being subject to tax on capital gains. To mitigate this risk, Baillie Gifford's Business Risk, Internal Audit and Compliance Departments provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes.

Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised. Shareholder documents and announcements, including the Company's published Interim and Annual Report and Financial Statements, are subject to stringent review processes, and procedures are in place to ensure adherence to the Transparency Directive with reference to inside information.

Custody and Depositary Risk – safe custody of the Company's assets may be compromised through control failures by the Depositary, including cyber hacking. To mitigate this risk, the Board receives six monthly reports from the Depositary confirming safe custody of the Company's assets. Cash and portfolio holdings are independently reconciled to the Custodian's records by the Managers. The Custodian's audited internal controls reports are reviewed by Baillie Gifford's Internal Audit Department and a summary of the key points is reported to the Audit Committee and any concerns investigated.

Small Company Risk – the Company has investments in smaller companies which are 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. To mitigate this risk, the Board reviews the investment portfolio at each meeting and discusses the investment case and portfolio weightings with the Managers. A spread of risk is achieved by holding a minimum of 40 stocks and the relative industry weightings against the comparative index are considered at each Board meeting.

Operational Risk – failure of Baillie Gifford's 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. To mitigate this risk, Baillie Gifford has a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The Board reviews Baillie Gifford's Report on Internal Controls and the reports by other key third party providers are reviewed by Baillie Gifford on behalf of the Board.

Discount/Premium Volatility – the discount/premium at which the Company's shares trade can change. To mitigate this risk, the Board monitors the level of discount/premium and the Company has authority to buy back or issue shares when deemed to be in the best interest of all shareholders.

Leverage Risk – the Company may borrow money for investment purposes (sometimes known as 'gearing' or 'leverage'). If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings.

To mitigate this risk, all borrowings require the prior approval of the Board and leverage levels are discussed by the Board and Managers at every meeting. Covenant levels are monitored regularly. The Company's investments are in listed securities that are readily realisable. Further information on leverage can be found on page 56 and in the Glossary of Terms on page 56.

Political Risk – the Board is aware that the proposed UK Referendum on its membership of the European Union introduces elements of political uncertainty which may have practical consequences for the Company and its Managers. Developments will be closely monitored and considered by the Board and the Managers

Viability Statement

In accordance with provision C2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014, the Directors have assessed the prospects of the Company over a period of five years. The Directors believe this period to be appropriate as it reflects the Company's longer term investment strategy and to be a period during which, in the absence of any adverse change to the regulatory environment and to the tax treatment afforded to UK investment trusts, they do not expect there to be any significant change to the current principal risks facing the Company nor to the effectiveness of the controls employed to mitigate those risks. Furthermore, the Directors do not reasonably envisage any change in strategy or any events which would prevent the Company from operating over a period of five years.

In considering the viability of the Company, the Directors have conducted a robust assessment of each of the principal risks and uncertainties detailed on pages 6 and 7 and in particular the impact of market risk where a significant fall in Japanese small equities markets would adversely impact the value of the investment portfolio. The Directors have also considered the Company's leverage and liquidity in the context of the fixed term secured bank loan which is due to expire in 2020. Although the Company's revenue account is expected to remain in deficit, its investments are primarily listed equities which are readily realisable and so capable of being sold to provide funding if required. In addition, all of the key operations required by the Company are outsourced to third party service providers and it is reasonably considered that alternative providers could be engaged at relatively short notice.

Based on the Company's processes for monitoring revenue projections, share price discount/premium, the Managers' compliance with the investment objective, asset allocation, the portfolio risk profile, leverage, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years.

Employees, Human Rights and Community Issues

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, these requirements do not apply to the Company.

Gender Representation

The Board comprises five Directors, four male and one female. The Company has no employees. The Board's policy on diversity is set out on page 25.

Environmental Social and Governance Policy

Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on page 26.

Future Developments of the Company

The outlook for the Company for the next 12 months is set out in the Chairman's Statement on page 2 and the Managers' Report on pages 9 and 10.

The Strategic Report which includes pages 2 to 19 was approved by the Board on 24 March 2016.

M Neil Donaldson
Chairman

Managers' Report

Last year's Managers' report noted the spread of entrepreneurial spirit beyond the Internet and digital sectors. Over the course of the year, there have been encouraging signs of this trend gathering pace. There is a growing sense in Japan that entrepreneurship could be highly rewarding and we view this as an exciting development for Shin Nippon.

There are tentative signs of entrepreneurship emerging in traditional sectors. This is exemplified by our recent investment, Nippon Ceramic which manufactures sensors. There has been a recent change in leadership with the founder being replaced by his son. Whereas the founder led a company with a management style and growth prospects that were very dull, his son is young and ambitious. He has now set the company on a high growth path by prioritising overseas expansion and entry into fast growing end markets such as autos.

An increasing number of dynamic entrepreneurs continue to use the Internet to challenge traditional industries. They are building scalable business models that should result in rapid and sustainable growth. A couple of our recent investments illustrate this quite well. Bengo4.com runs a website that matches individuals seeking legal support with lawyers. Consumers don't always get access to the best legal advice and this problem is compounded by the sheer number of lawyers in Japan. By advertising their services on Bengo4.com, lawyers can advertise themselves to customers who can then make an informed choice. Another inefficient sector is the auto parts aftermarket. Garages deal with a large number of suppliers to source spare parts and the entire system is paper and fax-based. Consequently, a simple car repair job can take days. To remove this inefficiency, IT company Broadleaf has developed an online, cloud-based parts ordering system which is fast becoming the de facto industry standard.

A few of our investee companies are gradually being recognised as industry leaders. Nihon M&A Center has firmly established itself as the dominant player in the M&A advisory business for small and medium sized companies. Larger financial institutions in Japan are now seeking to tie up with Nihon M&A Center to tap into its expertise. Online cosmetic ratings website iStyle has seen its user-based rating system become very popular and this is now considered an important marketing tool by numerous large brands.

In general, for the small companies that Shin Nippon invests in, we believe that the quality of management teams and their business strategies have more influence rather than macro-economic factors. Although this remains the case, it is worth highlighting the government's efforts towards deregulation, as this has served to expand the growth opportunities available for small companies. Recent new regulation to encourage innovation in regenerative medicine is already seeing encouraging results. We have taken a holding in a biotech company that should benefit from these new rules. More details are included below. Inbound tourism remains very strong and this has led to a shortage of accommodation. To address this, the government is looking to legalise a hitherto prohibited practice of using private residences for short term lets. This should result in a new and sizeable opportunity for Next, a leading online real estate website operator.

We saw yet another strong year for IPOs in Japan. The number of newly listed companies operating in innovative and fast growing areas of the economy continues to rise. This expanding set of potentially attractive businesses is an encouraging development for Shin Nippon.

Performance

The MSCI Japan Small Cap Index (total return in sterling terms) rose by 10.9% over the year while Shin Nippon's net asset value per share rose by 25.4% (after deducting borrowings at fair value). Investors in Japanese stocks were generally quite encouraged by the continued adoption of higher levels of governance across corporate Japan and the progress made towards deregulation.

Noticeable among the positive contributors to performance over the year were a number of disruptive online businesses targeting the domestic market. iStyle has seen strong growth in sales and profits as its cosmetics rating model has gained traction with a number of leading brands. It is now replicating this model in China where initial progress has been encouraging. Next is extending its advantage in the online real estate sector by expanding the range of services it delivers through its online platform. Sales and profit growth at MonotaRO remain at high levels as the company continues to take share from offline suppliers of maintenance and repair equipment. Precision surgical guidewire maker Asahi Intecc is enjoying rising demand for its new generation of products especially from overseas customers.

Company specific issues have led to poor performance from some names. Sales and profit growth at medical data management software provider Findex have suffered due to issues with its sales partners. The company is working actively to resolve what we believe to be a short term problem that should be easily fixed. Crowdworks, a crowd sourcing services provider, is gaining traction with customers across sectors but also remains loss making as it continues to invest in building its brand and scale of operations.

Portfolio

We pay less attention to the benchmark and focus more on each individual company's attractions. Consequently, Shin Nippon's active share figure continues to be high at 94%, implying just a 6% overlap between the portfolio and the comparative index. Annualised turnover within the portfolio was 15%, consistent with our long term investment approach. However, new investments were made over the year in several companies with high growth potential.

In the biotech area, we purchased a new holding in Sanbio, a recently listed company with stem cell and regenerative medicine expertise. It has developed a treatment for people who have suffered a stroke that can be effective even years after the initial brain injury. The treatment involves the injection of modified bone marrow stem cells into the brain near the site of the brain damage caused by the stroke. These stem cells act to promote tissue repair. A small sample size trial showed remarkable results with patients exhibiting highly significant increases in mobility just months after the treatment. Recent regulatory changes in Japan for regenerative medicine mean that Sanbio could get fast track approval for its therapy in a fairly short period of time.

Past performance is not a guide to future performance.

Both Bengo4.com and Broadleaf highlighted earlier were purchased during the year. In addition, we also purchased a new holding in Yonex, a leading global brand in badminton equipment. Badminton as a sport is seeing a surge in popularity especially in Asia, thanks to the large number of Asian players who dominate the world rankings. Given the potential size of some of these markets, we think the growth prospects for Yonex could be quite exciting over the long term.

Outlook

The focus for Shin Nippon remains to seek out and invest in young, high growth companies run by dynamic and entrepreneurial managers. Changing attitudes towards entrepreneurship and an increasingly global outlook at young companies is a hugely encouraging and welcome development. We believe this will give rise to an increasing number of up and coming high growth businesses in Japan and we remain excited by the prospects of investing in such companies.

Baillie Gifford & Co
24 March 2016

Review of Investments

A review of some of the Company's new acquisitions together with a list of the ten largest investments is given below and on the following two pages.

Top Ten

Asahi Intecc

3.5% of total assets

Asahi Intecc is a medical equipment company that specialises in high precision guidewires that are used in non-surgical treatment of narrowed or blocked arteries. The company's high end products are gaining share globally now that the company has taken more control of its overseas distribution. In addition to this, the overall market is growing because non-surgical treatments are viewed as less risky and cheaper than heart surgery. The company is well positioned to grow in the rapidly expanding Chinese market.

Next

3.4% of total assets

Next operates one of Japan's leading real estate websites. With over 5 million listed properties, it provides the broadest selection of listings for rental apartments and homes to buy in Japan. Next's profits have been increasing sharply due to a pick up in the property market. The company has also been adding a number of valuable services to its core website in order to increase customer traffic. The government is looking to legalise Airbnb style private, short term rentals and this should open up a new and significant market for Next. The company has also been making targeted acquisitions overseas and has ambitions of evolving into a global, online real estate player.

MonotaRO

3.3% of total assets

MonotaRO sells a huge variety of everyday business necessities directly to small Japanese companies through its website. In the past, small businesses had to deal with a vast array of different wholesalers and suppliers on a regular basis. MonotaRO's website has several million different items available to order. Most products are available for next day delivery and MonotaRO can normally offer lower prices because they are ordering in bulk. The number of registered customers is rising whilst a greater proportion of higher margin private brand products are being sold.

GMO Payment Gateway

3.3% of total assets

GMO Payment Gateway is a leading provider of digital payment processing services, facilitating transactions on over 40,000 small websites in Japan. The company has been growing rapidly as more websites have signed up to use the services, boosting the outlook for recurring annual fees. In addition, the company collects revenues related to the number of transactions that are processed and its customers' websites appear to have been performing very well. It has also been adding new value-added services to allow customers to analyse the performance of different parts of their websites.

Nihon M&A Center

3.2% of total assets

Nihon M&A Center provides merger advice to small and medium sized businesses in Japan. Many elderly business founders in Japan with no natural successor are looking for solutions to secure the long term future of their company. There are also many companies in Japan with strong balance sheets looking to consolidate their industry to make operations more efficient. Nihon M&A Center earns a fee if it successfully introduces two companies that end up merging. The company has a strong pipeline of new deals due to strong links with local banks and tax accountants.

iStyle

3.1% of total assets

iStyle operates the most popular cosmetics website in Japan. The market is characterised by thousands of different brands and product lines. iStyle seeks to help confused consumers differentiate between products by providing consumer reviews and ratings. The iStyle rating has become the industry standard in Japan and it is now very important for brands to secure a top rating for their product. In addition to advertising revenues from brands, the company is exploring new sources of income. It is opening a small number of stores stocked exclusively with a limited selection of top rated products from its website. It is also expanding overseas and is gaining traction in the substantial Chinese market.

M3

2.5% of total assets

M3 is a Japanese company that provides online marketing support for pharmaceutical companies. It runs a medical website with an interactive portal that doctors can log into and pick up targeted email messages about relevant new drug developments. This online marketing is much cheaper for the pharmaceutical companies than face-to-face contact through sales representatives and allows for more efficient time-management by doctors. Growth has been rapid in Japan and M3 is now starting to show signs of replicating the business model successfully overseas. The company has obtained a worthwhile foothold in the US in several key areas such as cardiology and oncology, while acquisitions in Europe and China are helping the company develop its network of doctors there.

Start Today

2.3% of total assets

The Japanese e-commerce market continues to expand rapidly and Start Today has emerged as the leading online apparel retailer. The company's shopping mall style website is aimed at fashion conscious consumers and handles items from over a thousand brands. The huge variety of garments and accessories on offer has allowed Start Today to achieve a dominant position within its niche market. The rising number of site members attracts more brands to the site, creating a virtuous circle. The expanding scale of operations has allowed the company to develop a strong distribution network which facilitates next day delivery. In the long run Start Today's market could double if the penetration of online apparel purchasing reaches the levels witnessed in some overseas markets.

Nifco

2.3% of total assets

Nifco designs and manufactures plastic parts for use in vehicles. The use of plastic is increasing as automakers look to reduce the weight of their models to improve fuel efficiency. Nifco outsources the majority of its production which allows it to generate high levels of profitability. It is expanding its customer base through acquisitions and is already counted as a tier 1 supplier for some US and European automakers. With a view to improving long term capital efficiency, Nifco has recently instituted a company-wide policy to focus on divisional returns on invested capital.

Infomart Corp

2.1% of total assets

Infomart Corp operates a cloud-based internet platform to connect Japanese restaurants with their suppliers. The restaurant industry is extremely competitive and Infomart's system allows businesses to cut costs significantly by simplifying the previously inefficient ordering process. The proportion of restaurant supplies that are sourced online is rising but the industry is still at a very early stage of development. Infomart is by far the largest player in this space and has the potential to raise fees in the long term.

New Buys

Bengo4.com

0.3% of total assets

Bengo4.com operates a website for legal services in Japan where people in need of a lawyer can search for a specialist. With increasing instances of litigation in Japan and the government's desire to improve access to lawyers and raise the quality of advice available to individuals, there should be strong continuing demand for Bengo4's services. Longer term, the company plans to offer these services to corporate clients, introduce online access to tax accountants and explore opportunities in legal technologies to reduce inefficiencies in the Japanese legal system.

Broadleaf

0.8% of total assets

Broadleaf operates a comprehensive online platform servicing the car aftermarket. It connects suppliers with the independent garages through its suite of online business applications delivered through an in-house cloud-based IT infrastructure. Revenue is generated by taking payments for the use of software and commissions on parts supplied. The car repair industry in Japan is fragmented and Broadleaf's offer can significantly improve productivity in the garages; one search of its database as opposed to a dozen phone calls to source a particular part. The potential is huge and the company should benefit from network effects as it continues to grow.

Komehyo

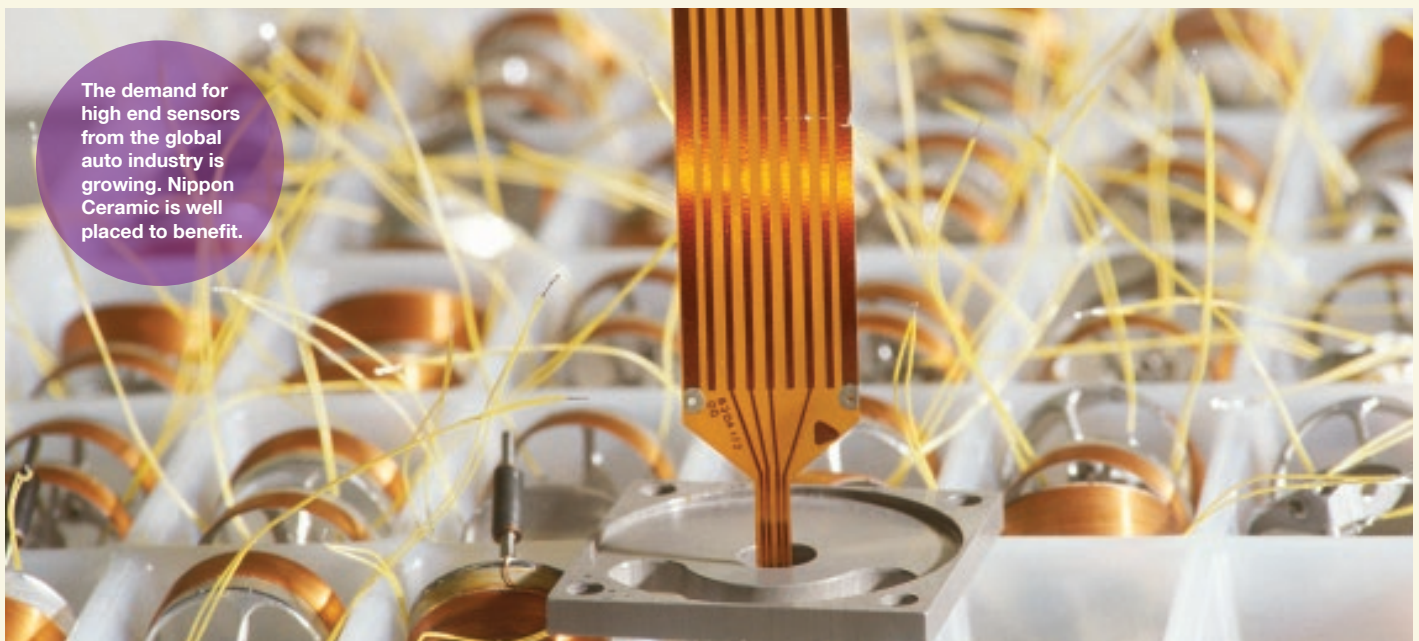
0.7% of total assets

Komehyo is Japan's largest second-hand dealer and retailer. Its products include apparel, branded luxury goods, watches and jewellery. The second-hand market is a growing niche of consumer spending that appeals to the domestic consumer as well as tourists. Komehyo's dominant market position is supported by the skill-set of its buyers who are trained in-house. Komehyo only deals in genuine goods and has a strong reputation as the top assessor of authenticity in the industry.

Nippon Ceramic

1.0% of total assets

Nippon Ceramic is a specialist manufacturer of high end sensors used in a variety of applications such as automatic doors, security systems, air conditioners and autos. The company has an especially strong position in the latter where its high end ultrasound and infrared sensors are increasingly being used by both Japanese and non-Japanese car makers. The company seems well positioned to benefit from the trend of increasing car electrification and is shifting its existing capacity to produce more high end and high margin sensors.



Sanbio

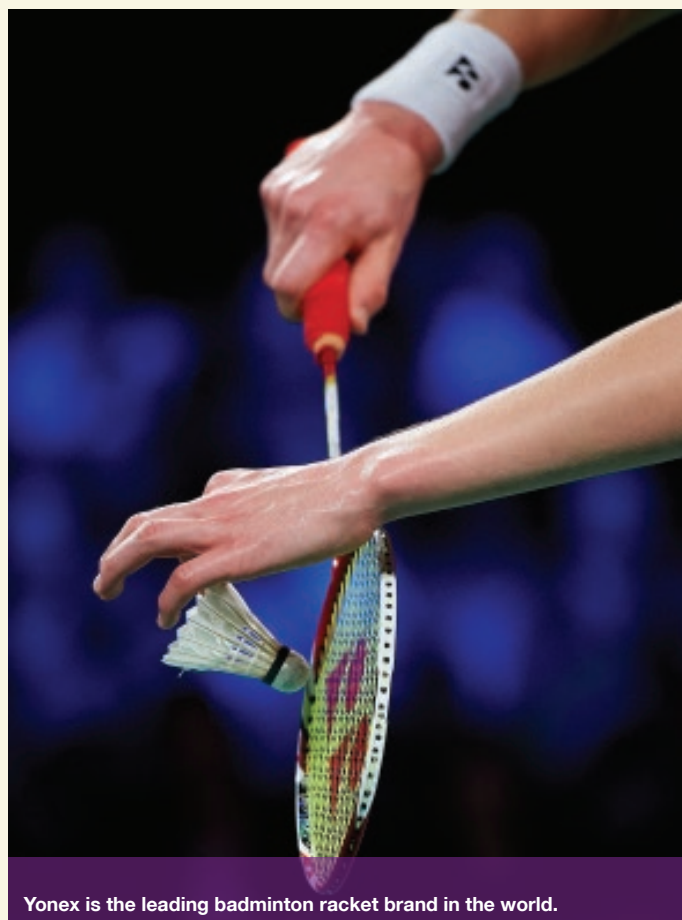
0.3% of total assets

Sanbio is a recently listed company with stem cell and regenerative medicine expertise. It has developed a potential treatment for people who have suffered a stroke that can be effective even years after the initial brain injury. The treatment involves the injection of modified bone marrow stem cells into the brain near the site of the brain damage caused by the stroke. These stem cells act to promote tissue repair. In a small sample size trial, the company has shown highly significant increases in mobility some months after the treatment. This is a hugely exciting result as previously treatment for people with historic stroke damage has been extremely limited. Having been originally based in San Francisco, the company recently relocated to Japan to take advantage of the new and progressive regulations governing regenerative medicine.

Yonex

1.5% of total assets

Yonex is the leading badminton racket brand in the world. Badminton is growing as a participation sport across Asia and many of the top players use Yonex equipment. Historically, the company has been managed by members of the founder's family, although this has recently changed with the appointment of a new CEO. This should result in a more aggressive approach to building the brand overseas, particularly in China which boasts of some of the world's top ranked players and where badminton as a sport is becoming increasingly popular.



Yonex is the leading badminton racket brand in the world.

© FrontzoneSport/Getty Images.

Portfolio Performance Attribution for the Year to 31 January 2016*

Computed relative to the comparative index†

Portfolio breakdown	Index asset allocation		Shin Nippon asset allocation		Performance#		Contribution to relative return %	Contribution attributable to:		
	31.01.15 %	31.01.16 %	31.01.15 %	31.01.16 %	Shin Nippon %	Index %		Stock selection %	Asset allocation %	Gearing %
Consumer Discretionary	17.5	18.7	30.1	25.6	34.0	19.6	3.9	3.2	0.7	–
Consumer Staples	9.7	11.6	5.7	6.5	19.6	31.7	(1.3)	(0.5)	(0.8)	–
Energy	0.7	0.7	0.9	0.5	(22.3)	(7.4)	(0.1)	(0.1)	–	–
Financials	20.2	18.7	9.0	8.2	19.3	1.9	2.3	1.4	0.9	–
Health Care	5.4	5.9	18.1	15.8	14.9	18.2	0.1	(0.5)	0.6	–
Industrials	24.5	23.3	17.2	19.4	21.2	8.2	2.3	2.3	–	–
Information Technology	10.6	10.3	18.0	23.6	32.5	7.6	4.2	4.7	(0.5)	–
Materials	10.9	10.3	–	–	–	2.6	0.8	–	0.8	–
Telecommunication Services	–	–	1.0	0.4	(45.5)	–	(0.5)	(0.5)	–	–
Utilities	0.5	0.5	–	–	–	15.7	–	–	–	–
Total (excluding gearing)	100.0	100.0	100.0	100.0	24.3	10.9	12.1	10.0	1.9	–
Impact of gearing						1.4				1.4
Total (including gearing)‡	100.0	100.0	100.0	100.0	26.0	10.9	13.6	10.0	1.9	1.4

Past performance is not a guide to future performance.

Source: Baillie Gifford/StatPro.

Contributions cannot be added together, as they are geometric; for example to calculate how a return of 26.0% against an index return of 10.9% translates into a relative return of 13.6%, divide the portfolio return of 126.0 by the index return of 110.9, subtract one and multiply by 100.

* The performance attribution table is based on total assets.

† The comparative index for the year to 31 January 2016 was the MSCI Japan Small Cap index, total return and in sterling terms.

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

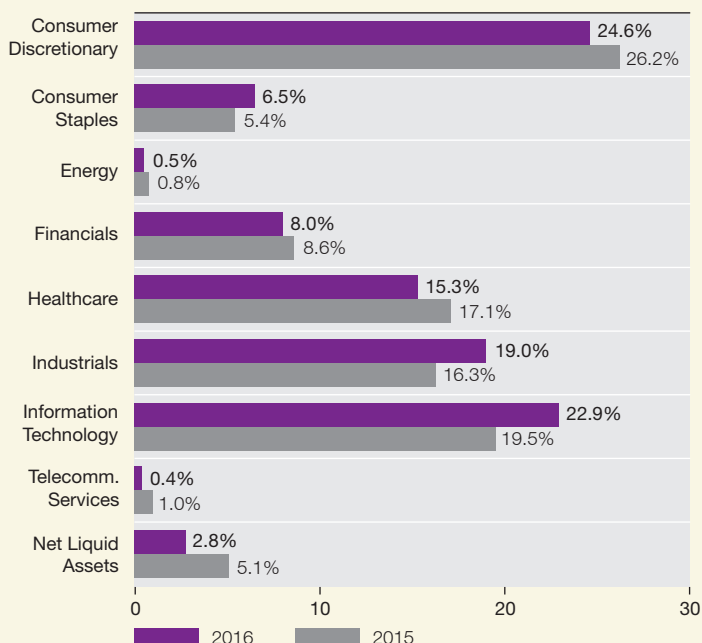
‡ The total return performance of 26.0% excludes expenses and therefore differs from the NAV return (after deducting borrowings at par value) of 25.0% as a result.

Investment Changes

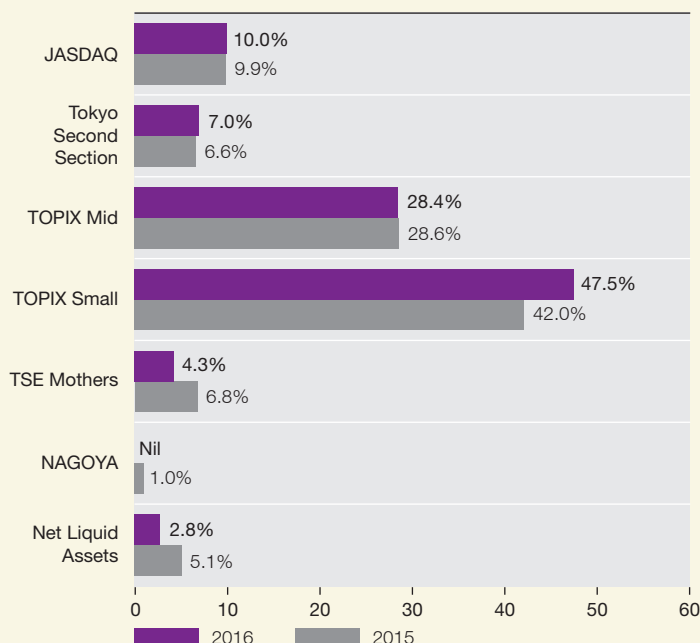
	Valuation at 31 January 2015 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 January 2016 £'000
Equities:				
Consumer Discretionary	38,665	(5,164)	11,961	45,462
Consumer Staples	8,023	1,957	1,594	11,574
Energy	1,218	–	(289)	929
Financials	12,666	(411)	2,302	14,557
Health Care	25,299	(630)	3,430	28,099
Industrials	24,000	5,245	5,161	34,406
Information Technology	28,715	4,180	9,046	41,941
Telecommunication Services	1,420	–	(657)	763
Total investments	140,006	5,177	32,548	177,731
Net liquid assets	7,523	(2,713)	276	5,086
Total assets	147,529	2,464	32,824	182,817
Bank loan	(18,894)	(18)	(515)	(19,427)
Shareholders' Funds	128,635	2,446	32,309	163,390

Distribution of Total Assets

Industry

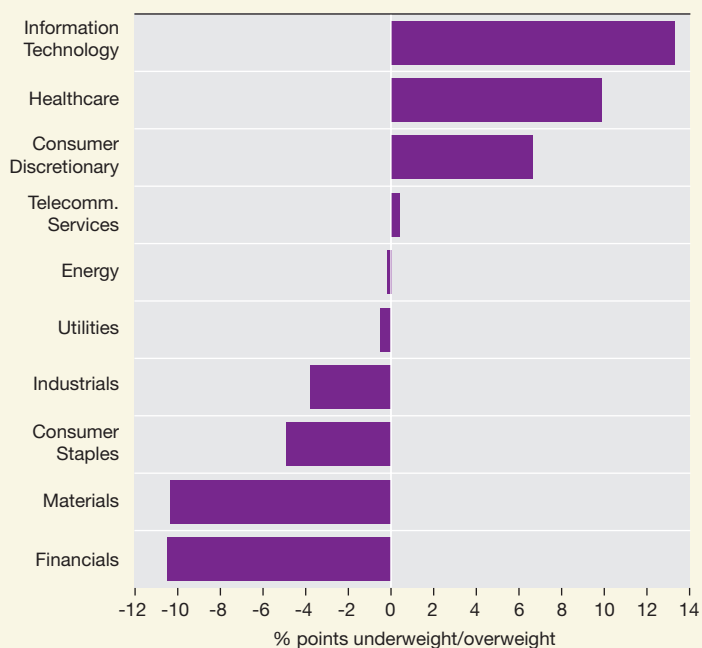


Listings



Portfolio Weightings

Relative to comparative index



Twenty Largest Equity Holdings

Name	Business	2016 Value £'000	2016 % of total assets	2015 Value £'000
Asahi Intecc	Specialist medical equipment	6,458	3.5	3,595
Next	Provides online property information	6,221	3.4	2,418
MonotaRO	Online business supplies	6,002	3.3	3,575
GMO Payment Gateway	Online payment processing	5,986	3.3	1,936
Nihon M&A Center	M&A advisory services	5,804	3.2	4,424
iStyle	Cosmetics website	5,717	3.1	744
M3	Online medical services	4,535	2.5	3,855
Start Today	Internet fashion retailer	4,230	2.3	2,611
Nifco	Industrial fastener manufacturer	4,170	2.3	2,865
Infomart Corp	Internet platform for restaurant supplies	3,770	2.1	3,064
Pigeon	Baby care products	3,592	2.0	2,664
Cocokara Fine	Drugstore chain	3,567	1.9	1,523
Harmonic Drive	Robotic components	3,442	1.9	2,620
Daikyonishikawa	Automobile part manufacturer	3,335	1.8	1,592
Nakanishi	Dental equipment	3,284	1.8	2,945
Hoshizaki Electric	Commercial kitchen equipment	3,248	1.8	2,276
Iriso Electronics	Specialist auto connectors	3,180	1.7	3,323
Cookpad	Recipe website	3,121	1.7	3,523
Cyberagent	Internet advertising and content	3,111	1.7	2,823
Takara Leben	Residential property developer	3,083	1.7	3,045
		85,856	47.0	

List of Investments at 31 January 2016

Name	Where listed	Business	Value £'000	% of total assets
Consumer Discretionary				
Asics	TOPIX Mid	Sports shoes and clothing	2,988	1.6
Cyberagent	TOPIX Mid	Internet advertising and content	3,111	1.7
Daikyonishikawa	TOPIX Small	Automobile part manufacturer	3,335	1.8
H.I.S.	TOPIX Small	Discount travel agency and theme parks	2,420	1.3
JP Holdings	TOPIX Small	Operates child-care facilities	1,241	0.7
Komehyo	TOKYO 2nd	Brand fashion business	1,335	0.7
Next	TOPIX Small	Provides online property information	6,221	3.4
Nifco	TOPIX Mid	Industrial fastener manufacturer	4,170	2.3
Oisix	TSE Mothers	Organic food website	610	0.3
Samantha Thavasa	TSE Mothers	Handbag and accessories brand	417	0.2
Sanwa	TSE Mothers	Online kitchen and bathroom supplies	913	0.5
Shoei	TOPIX Small	Manufactures motor cycle helmets	2,265	1.2
Start Today	TOPIX Mid	Internet fashion retailer	4,230	2.3
Tomy	TOPIX Small	Toy manufacturer	2,265	1.2
Unipres	TOPIX Mid	Manufacturer of automotive components	1,755	1.0
Yonex	TOKYO 2nd	Manufacture and sale of sporting goods	2,788	1.5
Yume No Machi	JASDAQ	Online meal delivery service	2,984	1.6
Zojirushi Corp	TOKYO 2nd	Kitchen appliance manufacturer	2,414	1.3
			45,462	24.6
Consumer Staples				
Calbee	TOPIX Mid	Branded snack foods	2,108	1.2
Cocokara Fine	TOPIX Small	Drugstore chain	3,567	2.0
Cosmos Pharmaceuticals	TOPIX Mid	Drugstore chain	2,307	1.3
Pigeon	TOPIX Mid	Baby care products	3,592	2.0
			11,574	6.5
Energy				
Modec	TOPIX Small	Designs and leases offshore oil production facilities	929	0.5
			929	0.5
Financials				
Dream Incubator	TOPIX Small	Early stage business support	1,677	0.9
Japan Securities Finance	TOPIX Small	Provides loans and security lending services	1,508	0.8
Mugen Estate	TSE Mothers	Residential property developer	1,800	1.0
Nihon M&A Center	TOPIX Mid	M&A advisory services	5,804	3.2
Sawada Holdings	JASDAQ	Securities brokerage	685	0.4
Takara Leben	TOPIX Small	Residential property developer	3,083	1.7
			14,557	8.0
Healthcare				
Asahi Intecc	TOKYO 2nd	Specialist medical equipment	6,458	3.5
EPS	TOPIX Small	Clinical testing services	1,983	1.1
Findex	TOPIX Small	Healthcare software developer	741	0.4
Jeol	TOPIX Small	Manufacturer of scientific equipment	2,905	1.6
M3	TOPIX Mid	Online medical services	4,535	2.5
Message	JASDAQ	Nursing services for elderly	2,361	1.3
Nakanishi	JASDAQ	Dental equipment	3,284	1.8
Nanocarrier	TSE Mothers	Biotech company	1,675	0.9
Nikkiso	TOPIX Small	Industrial pumps and medical equipment	1,359	0.7
Peptidream	TOPIX Small	Biotech company	2,212	1.2
Sanbio	TSE Mothers	Stem cell based stroke treatment	586	0.3
			28,099	15.3

Name	Where listed	Business	Value £'000	% of total assets
Industrials				
Aeon Delight	TOPIX Small	Shopping mall maintenance	2,535	1.4
Hamakyorex	TOPIX Small	Third party logistics	2,343	1.3
Harmonic Drive	JASDAQ	Robotic components	3,442	1.9
Hoshizaki Electric	TOPIX Mid	Commercial kitchen equipment	3,248	1.8
Kato Works	TOPIX Small	Construction machinery manufacturer	966	0.5
MonotaRO	TOPIX Mid	Online business supplies	6,002	3.3
Nabtesco	TOPIX Mid	Robotic components	2,305	1.3
OSG Corp	TOPIX Mid	Manufactures machine tool equipment	2,169	1.2
Outsourcing	TOPIX Small	Employment placement services	2,826	1.5
Sato Holdings	TOPIX Small	Automatic recognition technologies	1,973	1.1
Sho-Bond	TOPIX Small	Earthquake resistant materials	1,612	0.9
Toshiba Plant Systems and Services	TOPIX Small	Plant engineering company	2,139	1.2
WDB Holdings	TOPIX Small	Human resource services	1,078	0.6
Weathernews	TOPIX Small	Provision of content services related to weather information	1,768	1.0
			34,406	19.0
Information Technology				
Bengo4.com	TSE Mothers	Online legal consultation	569	0.3
Brainpad	TOPIX Small	Business data analysis	699	0.4
Broadleaf	TOPIX Small	Online platform for buying car parts	1,418	0.8
Capcom	TOPIX Mid	Software developer	1,747	1.0
Cookpad	TOPIX Small	Recipe website	3,121	1.7
Crowdworks	TSE Mothers	Crowd sourcing services	796	0.4
Digital Garage	JASDAQ	Internet business incubator	2,370	1.3
Enplas	TOPIX Small	Plastic components for electronics industry	1,093	0.6
F@N Communications	TOPIX Small	Internet advertising services	1,179	0.6
GMO Payment Gateway	TOPIX Small	Online payment processing	5,986	3.3
Horiba	TOPIX Mid	Manufacturer of measuring instruments	1,342	0.7
Infomart Corp	TOPIX Small	Internet platform for restaurant supplies	3,770	2.1
Iriso Electronics	JASDAQ	Specialist auto connectors	3,180	1.7
iStyle	TOPIX Small	Cosmetics website	5,717	3.1
Megachips	TOPIX Small	Electronic components	884	0.5
Nippon Ceramic	TOPIX Small	Manufacturer of ultrasonic sensors	1,870	1.0
Optex	TOPIX Small	Infrared detection devices	2,877	1.6
Poletowin Pitcrew	TOPIX Small	Game testing and internet monitoring	1,218	0.7
SIIX Corp	TOPIX Small	Out-sourced overseas production	2,105	1.1
			41,941	22.9
Telecommunication Services				
Wirelessgate	TSE Mothers	Wireless communication services	763	0.4
			763	0.4
Total investments			177,731	97.2
Net liquid assets			5,086	2.8
Total assets			182,817	100.0
Bank loans			(19,427)	(10.6)
Shareholders' funds			163,390	89.4

Ten Year Record

Capital

At 31 January	Total assets* £'000	Bank loans £'000	Shareholders' funds £'000	Net asset value per share † p	Share price p	(Discount)/ premium # %
2006	101,015	13,938	87,077	284.6	304.0	6.8
2007	77,432	12,248	65,184	213.0	205.0	(3.8)
2008	56,518	11,354	45,164	145.2	129.3	(11.0)
2009	49,073	10,813	38,260	123.0	95.8	(22.1)
2010	51,486	7,917	43,569	140.1	115.3	(17.7)
2011	64,429	8,763	55,666	179.0	163.3	(8.8)
2012	64,362	9,557	54,805	176.2	167.3	(5.1)
2013	77,074	7,948	69,126	211.7	224.1	5.9
2014	133,828	19,867	113,961	310.4	328.0	5.7
2015	147,529	18,894	128,635	345.8	321.0	(7.2)
2016	182,817	19,427	163,390	432.3	448.0	3.6

* Total assets comprise total assets less current liabilities, before deduction of bank loans.

† Net asset value per ordinary share has been calculated after deducting borrowings at par value.

(Discount)/premium is the difference between Shin Nippon's quoted share price and its underlying net asset value (after deducting borrowings at par value) expressed as a percentage of net asset value.

Revenue

Year to 31 January	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share p	Ongoing charges ‡ %
2006	780	(365)	(1.20)	1.25
2007	929	(258)	(0.84)	1.19
2008	1,119	4	0.01	1.44
2009	1,358	481	1.54	1.47
2010	868	24	0.08	1.55
2011	1,108	114	0.37	1.50
2012	1,219	98	0.32	1.49
2013	1,165	(22)	(0.07)	1.53
2014	1,259	(239)	(0.69)	1.19
2015	1,554	(374)	(1.01)	1.14
2016	1,798	(290)	(0.78)	1.02

Gearing Ratios

Gearing ¶ %	Potential gearing § %
9	16
18	19
17	25
18	28
17	18
13	16
14	17
10	11
11	17
9	15
9	12

‡ Calculated as total operating costs divided by average net asset value (with borrowings at fair value). The 2009 figure excludes the impact of the VAT on management fees reclaimed during the year.

¶ Total assets (including all debt used for investment purposes) less all cash and cash equivalents divided by shareholders' funds.

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

Cumulative Performance (taking 2006 as 100)

At 31 January	Net asset value per share ^	Share price	Comparative index **
2006	100	100	100
2007	75	67	73
2008	51	43	60
2009	43	32	68
2010	49	38	67
2011	63	54	80
2012	62	55	81
2013	74	74	83
2014	109	108	98
2015	122	106	111
2016	152	147	123

Compound annual returns

5 year	19.3%	22.4%	8.9%
10 year	4.3%	4.0%	2.1%

^ Net asset value per ordinary share has been calculated after deducting borrowings at par value.

** On 1 February 2010 the Company changed its comparative index from a composite index of the Tokyo Second Section Index, the TOPIX Small Index and the JASDAQ Index, weighted by market capitalisation, in sterling terms to the MSCI Japan Small Cap Index (total return and in sterling terms). For the purpose of the above table the returns on both indices for their respective periods have been linked together to form a single comparative index.

Past performance is not a guide to future performance.

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.

Directors

M Neil Donaldson

Neil Donaldson was appointed a Director in 2014 and became Chairman on 21 May 2015. Mr Donaldson has been chairman of James Donaldson & Sons Limited, an independent Fife based timber merchants, since 1985. He is also deputy chairman of the R&A general committee. Currently the chairman of Securities Trust of Scotland, he has served on its board since 2005 and has more than 15 years' experience of the investment trust sector. He also holds appointments with several charities.

P Francis Charig

Francis Charig was appointed a Director in 2005. He has considerable knowledge of the technology, information and financial sectors in Japan gained from his time amongst others, at the London Stock Exchange as Head of the TSBU, as chairman & CEO of Tao Group and as the chairman of the Open Contents Platform Association based in Tokyo. He was named a *World Economic Forum* Technology Pioneer in 2006. He is currently active on the boards of several early stage businesses, investment advisory business, Harinezumi Ltd., sports information company, BetWiz Sports Ltd., instant messaging company IMOK Media Ltd and online LED lighting retail company, Lights Online Ltd.

Iain A McLaren CA

Iain A McLaren was appointed a Director in 2009 and is Chairman of the Audit Committee. He has extensive experience of financial reporting, auditing, corporate governance and general management. He retired from KPMG in 2008 having been a partner for 27 years and was senior partner in Scotland from 1999 to 2004. He is currently senior independent director and chairman of the audit committee of Cairn Energy Plc. He is also chairman of Investors Capital Trust Plc, non-executive director of Edinburgh Dragon Trust plc and Ecofin Water & Power Opportunities plc and a director of Mitra Energy Limited.

Merryn R Somerset Webb

Merryn R Somerset Webb was appointed a Director in 2011. She is the editor-in-chief of UK personal finance magazine MoneyWeek, writes for the Financial Times and is a radio and television commentator on financial matters. She has a strong interest in and knowledge of Japan and is a director of Montanaro European Smaller Companies Trust plc.

Simon CN Somerville

Simon CN Somerville was appointed a Director in 2010. He has over 20 years' experience in Japanese and Asian equities. Having worked for over 14 years at Cazenove Fund Management, latterly as the head of Global Equities, he joined Jupiter Asset Management in 2005 where he is currently Strategy Head of Japan Equities.

The Directors listed above were in office during the year to 31 January 2016 and remained in office as at 24 March 2016.

All Directors are members of the Nomination and Audit Committees.

Managers and Secretaries

The Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager and Company Secretary. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. Baillie Gifford & Co is 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 is one of the largest investment trust managers in the UK and currently manages seven investment trusts. Baillie Gifford also manages 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 totalled around £122 billion at 24 March 2016. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 40 partners and a staff of around 900.

The manager of Shin Nippon is Praveen Kumar, a member of the Japan Team. He joined Baillie Gifford & Co in 2008 and has specialised in Japanese equities since 2011. He is the investment manager with responsibility for Japanese smaller companies investments and became Manager of Shin Nippon on 1 December 2015.

Baillie Gifford & Co Limited and Baillie Gifford & Co are both authorised and regulated by the Financial Conduct Authority.

Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year to 31 January 2016.

Corporate Governance

The Corporate Governance Report is set out on pages 24 to 26 and forms part of this Report.

Manager and Company Secretaries

The Board as a whole fulfils the function of the Management Engagement Committee.

The Investment Management Agreement 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 six months' notice. Compensation fees would only be payable in respect of the notice period if termination were to occur sooner. The annual management fee payable is 0.95% on the first £50m of net assets and 0.65% on the remaining net assets, calculated and payable quarterly.

The Board reviews investment performance and monitors the arrangements for the provision of investment management and secretarial services to the Company on a continuous basis. A formal evaluation of the Managers by the Board is conducted annually. The Board's annual evaluation considers, amongst others, the following topics as recommended by the AIC Guide 'Evaluation of the Manager':

- Quality of Team;
- Investment Management;
- Commitment of Manager;
- Managing the Company;
- Promotion;
- Shareholders; and
- Management Agreement.

Following the most recent evaluation in November 2015, the Board is in agreement that the continuing appointment of Baillie Gifford & Co Limited as AIFM and the delegation of investment management services to Baillie Gifford & Co on the terms agreed, is in the interest of shareholders as a whole. This is due to: the strength and experience of the investment management team; the Managers' commitment to the investment trust sector as a whole and to the Japanese markets in particular; and very good long term investment performance in relation to investment policy and strategy. The Board also recognises the high quality of the Managers' secretarial, administrative and corporate governance functions.

The Board considers that maintaining a low ongoing charge ratio is in the best interest of shareholders. The Board continues to give careful consideration to the basis of the management fee.

Depository

In accordance with the AIFMD, BNY Mellon & Trust Depository (UK) Limited has been appointed Depository to the Company.

The Depository's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and

monitoring the Company's compliance with investment limits and leverage requirements. The Depository has delegated the custody function to The Bank of New York Mellon SA/NV ('the Custodian').

Directors

Information about the Directors, including their relevant experience, can be found on page 20.

Mr PF Charig, having served for more than nine years, is subject to annual re-election and will therefore be retiring and offering himself for re-election at the Annual General Meeting.

Following formal performance evaluation, the performance of Mr PF Charig continues to be effective and he remains committed to the Company. His contribution to the Board is greatly valued and the Board recommends his re-election to shareholders.

Mr BM Rose retired at the Annual General Meeting on 21 May 2015 and Mr MN Donaldson became Chairman.

Director Indemnification and Insurance

The Company has entered into deeds of indemnity in favour of each of the 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 or her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person. The indemnities were in force during the year and at the year end.

The Company maintains Directors' and Officers' Liability Insurance.

Conflicts of Interest

Each Director submits a list of potential conflicts of interest to the Nomination Committee on an ongoing basis. The Committee considers these carefully, taking into account the circumstances surrounding them and makes a recommendation to the Board on whether or not the potential conflicts should be authorised. Board authorisation is for a period of one year. Having considered the lists of potential conflicts there were no situations which gave rise to a direct or indirect interest of a Director which conflicted with the interests of the Company.

Dividend

The revenue reserve remains in deficit and no revenue profits were generated in the current year. Consequently the Company will not pay a dividend.

Share Capital

Capital Structure

The Company's capital structure consists of 37,775,497 ordinary shares of 10p each at 31 January 2016 (2015 – 37,175,497 ordinary shares). There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

Capital Entitlement

On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings.

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 51.

Major Interests in the Company's Shares

Name	No of ordinary 10p shares held at 31 January 2016	% of issue
South Yorkshire Pensions Authority	2,065,000	5.5

There have been no changes to the major interests in the Company's shares intimated up to 23 March 2016.

Annual General Meeting

Share Issuance Authority

At the last Annual General Meeting, the Directors were granted authority to issue shares up to an aggregate nominal amount of £1,239,183.20, and to issue shares or sell shares held in treasury on a non-pre-emptive basis for cash up to an aggregate nominal amount of £371,754.90. These authorities are due to expire at the Annual General Meeting on 20 May 2016.

Resolution 6 in the Notice of Annual General Meeting seeks a general authority for the Directors to issue shares up to an aggregate nominal amount of £1,273,349.90. This amount represents 33.33% of the Company's total ordinary share capital in issue at 23 March 2016 and meets institutional guidelines. No issue of ordinary shares will be made pursuant to the authorisation in Resolution 6 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Resolution 7, which is proposed as a special resolution, seeks authority for the Directors to issue shares or sell shares held in treasury on a non-pre-emptive basis for cash (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an aggregate nominal amount of £382,004.90 (representing 10% of the issued ordinary share capital of the Company as at 23 March 2016). The authorities sought in Resolutions 6 and 7 will continue until the conclusion of the Annual General Meeting to be held in 2017 or on the expiry of 15 months from the passing of the resolutions, if earlier.

Such authorities will only be used to issue shares or sell shares from treasury 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 Directors believe that the ability to buy-back shares at a discount and re-sell them or issue new shares at a premium are useful tools in smoothing supply and demand. During the year to 31 January 2016 the Company issued 600,000 shares on a non-pre-emptive basis at a premium to net asset value on ten separate occasions at an average price of 417.77 pence per share raising proceeds of £2,476,000. Between 1 February and 23 March 2016 the Company issued a further 425,000 shares raising proceeds of £1,928,000.

No shares were held in treasury as at 23 March 2016.

Market Purchases of Own Shares

At the last Annual General Meeting, the Company was granted authority to purchase up to 5,572,607 ordinary shares (equivalent to 14.99% of its issued share capital), such authority to expire at the 2016 Annual General Meeting. The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to make market purchases of up to 5,726,254 ordinary shares representing approximately 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 2017.

No shares were bought back during the year under review.

The principal reasons for share buy-backs are:

- (i) to enhance net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value;
- (ii) to address any imbalance between the supply of and 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:

- (a) sell such shares (or any of them) for cash (or its equivalent under the Companies Act 2006); or
- (b) cancel such shares (or any of them).

All buy-backs will initially be held in treasury. Shares will only be sold from treasury at a premium to the net asset value per ordinary share.

The Company shall not be entitled to exercise the voting rights attaching to treasury shares.

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) 5 percent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
- (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange.

The minimum price (exclusive of expenses) that may be paid will be 10p per share. Purchases of shares will be made within guidelines established, from time to time, by the Board. The Company does not have any warrants or options in issue. Your attention is drawn to Resolution 8 in the Notice of Annual General Meeting.

This authority, if conferred, will only be exercised if to do so would result in an increase in net asset value per ordinary share for the remaining shareholders and if it is considered in the best interests of shareholders generally.

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders.

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 Auditor is 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 Auditor is aware of that information.

Independent Auditors

The Auditor, PricewaterhouseCoopers LLP, is willing to continue in office and in accordance with section 489 and section 491(1) of the Companies Act 2006, resolutions concerning its reappointment and remuneration will be submitted to the Annual General Meeting.

Post Balance Sheets Events

The Directors confirm that there have been no post Balance Sheet events up to 24 March 2016.

Recommendation

The Board unanimously recommends you to vote in favour of the resolutions to be proposed at the Annual General Meeting, as, in its opinion, they are in the best interests of the shareholders as a whole.

Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. The Company therefore has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Bribery Act 2010

The Company has a zero tolerance policy towards bribery and is committed to carrying out business fairly, honestly and openly. The Managers also adopt a zero tolerance approach and have policies and procedures in place to prevent bribery.

On behalf of the Board
M Neil Donaldson
Chairman
24 March 2016

Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2014 UK Corporate Governance Code, (the 'Code') which can be found at www.frc.org.uk, and the principles of the Association of Investment Companies ('AIC') Code of Corporate Governance were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at www.theaic.co.uk.

Compliance

The Board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code and the recommendations of the AIC Code except that there is no designated senior independent director. The Directors do not believe that it is necessary to have a separate senior independent director due to the small size of the Board. Shareholders may address their concerns to any Board member.

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. A separate strategy session is held annually. The Board also reviews the Financial Statements, investment transaction reports, revenue budgets and performance. Full and timely information is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities.

Following the retirement of Mr BM Rose on 21 May 2015 the Board comprises five Directors, all of whom are non-executive. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The executive responsibility for investment management has been delegated to the Company's Alternative Investment Fund Manager ('AIFM'), Baillie Gifford & Co Limited, and in the context of a Board comprising entirely non-executive directors there is no chief executive officer.

The Directors believe that the Board has a balance of skills and experience that enable 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 20.

The Directors recognise the importance of board succession planning. The composition of the Board and the plans for refreshment are reviewed regularly to ensure there is an appropriate balance of skills, experience, age and length of service.

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

Appointments

The terms and conditions of Directors' appointments are set out in formal letters of appointment which 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 re-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 Company and the Managers and free of any business or other relationship that could interfere with the exercise of their independent judgement.

The Board concurs with the view expressed in the AIC Code that 'independence stems from the ability to make those objective decisions that may be in conflict with the interests of management'. 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 of benefit to the Board. Directors are, however, required to retire and, if appropriate, seek re-election at least every three years. Directors who have more than nine years' service submit themselves for re-election annually. The Board is not controlled by long serving Directors.

Mr PF Charig has served on the Board for more than nine years. The Board believes strongly that Mr PF Charig's independence and contribution to the Board has not been compromised by his length of service and that this has been evidenced by his actions and decisions. Following a formal performance evaluation on 22 January 2016, the Board believes that he continues to be independent. The Board considers that none of Mr PF Charig's other commitments, as set out on page 20 of this report, interfere with the discharge of his duties to the Company and the Board is satisfied that he is capable of devoting sufficient time to the Company.

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.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	6	2	2
MN Donaldson	6	2	2
PF Charig	6	2	2
IA McLaren	6	2	2
BM Rose (retired 21 May 2015)	2	1	1
MR Somerset Webb	6	2	2
SCN Somerville	6	2	2

The table above shows the attendance record for the core Board and Committee meetings held during the year. Various ancillary meetings were held during the year.

Nomination Committee

The Nomination Committee consists of the whole Board and the Chairman of the Board is Chairman of the Committee. The Committee meets at least annually and at such other times as may be required. The Committee has written terms of reference that 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 Committee is also responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not the potential conflicts should be authorised.

Appointments to the Board are made on merit with due regard for the benefits of diversity including gender. The priority in appointing new Directors is to identify the candidate with the best range of skills and experience to complement existing Directors. The Board therefore does not consider it appropriate to set diversity targets.

The Committee's terms of reference are available on request from the Company and on the Company's website:

www.shinnippon.co.uk.

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 on 22 January 2016. The Chairman and each Director completed a performance evaluation questionnaire. Each Director had an interview with the Chairman and the Directors reviewed the Chairman's performance.

The appraisals and evaluations considered amongst other criteria the balance of skills of the Board, training and development requirements, 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 continues to be effective and each Director remains committed to the Company.

A review of the Chairman's and other Directors' commitments was carried out and the Nomination Committee is satisfied that they are capable of devoting sufficient time to the Company. There were no significant increases to the Chairman's and Directors' 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, 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 29 and 30.

Audit Committee

The report of the Audit Committee is set out on pages 27 and 28.

Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives 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 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

The practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the Company's assets and to manage its affairs properly, including the maintenance of effective operational and compliance controls have been delegated to the Managers and Secretaries.

The Board oversees the functions delegated to the Managers and Secretaries and the controls managed by the AIFM in accordance with the Alternative Investment Fund Managers Directive (as detailed below). Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provide the Audit Committee with regular reports on their monitoring programmes. The reporting procedures for these departments are defined and formalised within a service level agreement. Baillie Gifford & Co conducts an annual review of its system of internal controls which is documented within an internal controls report which complies with ISAE 3402 and Technical Release AAF 01/06 – Assurance Reports on Internal Controls of Service Organisations made available to Third Parties. This report is independently reviewed by Baillie Gifford & Co's Auditor and a copy is submitted to the Audit Committee.

A report identifying the material risks faced by the Company and the key controls employed to manage these risks is reviewed by the Audit Committee.

These procedures ensure that consideration is given regularly to the nature and extent of 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 these risks.

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal controls systems and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review and up to the date of this Report.

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.

To comply with the Alternative Investment Fund Managers Directive, BNY Mellon Trust & Depositary (UK) Limited acts as the Company's Depositary and Baillie Gifford & Co Limited as its AIFM.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. The Depositary has delegated the custody function to The Bank of New York Mellon SA/NV London Branch ('the Custodian'). The Custodian prepares a report on its key controls and safeguards which is independently reviewed by KPMG LLP.

The Depositary provides the Audit Committee with a report on its monitoring activities.

The AIFM has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor compliance with risk limits. The AIFM has a risk management policy which covers the risks associated with the management of the portfolio, and the adequacy and effectiveness of this policy is reviewed and approved at least annually. This review includes the risk management processes and systems and limits for each risk area.

The risk limits, which are set by the AIFM and approved by the Board, take into account the objectives, strategy and risk profile of the portfolio. These limits, including leverage (see page 56), are monitored and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables in the portfolio. Exceptions from limits monitoring and stress testing undertaken by Baillie Gifford's Business Risk Department are escalated to the AIFM and reported to the Board along with remedial measures being taken.

Going Concern

In accordance with the Financial Reporting Council's guidance on going concern and liquidity risk, the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern.

The Company's principal risks are market related and include market risk, liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 17 to the Financial Statements. The Company's assets, which are primarily investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with loan covenants are reviewed by the Board on a regular basis. Accordingly, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Investment Manager meets regularly with shareholders and their representatives and reports to the Board. The Company broker and the Managers' sales team also have regular contact with current and potential shareholders. The Chairman and Directors are 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 Company's registered office or through the Company's broker, Panmure Gordon & Co (see contact details on 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 at www.shinnippon.co.uk subsequent to the meeting. 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 at www.shinnippon.co.uk.

Corporate Governance and Stewardship

The Company has given discretionary voting powers to Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests and report their actions to the Board.

The Company believes that it is in the shareholders' interests to consider environmental, social and governance (ESG) factors when selecting and retaining investments and have asked the Managers to take these issues into account. The Managers do not exclude companies from their investment universe purely on the grounds of ESG factors but adopt a positive engagement approach whereby matters are discussed with management with the aim of improving the relevant policies and management systems and enabling the Managers to consider how ESG factors could impact long term investment returns. The Managers' statement of compliance with the UK Stewardship Code can be found on the Managers' website at www.bailliegifford.com. The Managers' policy has been reviewed and endorsed by the Board.

The Managers are signatories to the United Nations Principles for Responsible Investment and the Carbon Disclosure Project and are also members of the Asian Corporate Governance Association and International Corporate Governance Network.

By order of the Board

M Neil Donaldson

Chairman

24 March 2016

Audit Committee Report

The Audit Committee consists of all independent Directors. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. Mr IA McLaren, Chairman of the Committee, is a Chartered Accountant.

The Committee's authority and duties are clearly defined within its written terms of reference which are available on request from the Company Secretaries and at www.shinnippon.co.uk. The terms of reference are reviewed annually.

The Committee's effectiveness is reviewed on an annual basis as part of the Board's performance evaluation process.

At least once a year the Committee meets with the external Auditors without any representative of the Manager being present.

Main Activities of the Committee

The Committee met twice during the year and PricewaterhouseCoopers LLP, the external Auditor, attended both meetings. Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provided reports on their monitoring programmes for these meetings.

The matters considered, monitored and reviewed by the Committee during the course of the year included the following:

- The preliminary results announcement and the annual and interim reports;
- The Company's accounting policies and practices;
- The regulatory changes impacting the Company;
- The fairness, balance and understandability of the Annual Report and Financial Statements and whether it provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- The effectiveness of the Company's internal control environment;
- Reappointment, remuneration and engagement letter of the external Auditor;
- Whether the audit services contract should be put out to tender;
- The policy on the engagement of the external Auditor to supply non-audit services;
- The independence, objectivity and effectiveness of the external Auditor;
- The need for the Company to have its own internal audit function;
- Internal controls reports received from the Managers and custodian;
- Written assurance from the Company's key third party service providers regarding whether they have been aware of any fraud or had any suspicions of fraud over the Company's financial year; and
- 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.

Internal Audit

The Committee continues to believe that the compliance and internal controls 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.

Financial Reporting

The Committee considers that the most significant issue likely to affect the Financial Statements is the existence and valuation of investments, as they represent 97.2% of total assets and the accuracy and completeness of income from investments.

All of the investments are in quoted securities and market prices are readily available from independent external pricing sources. The Committee reviewed the Managers' Report on Internal Controls which details the controls in place regarding recording and pricing of investments and accurate recording of investment income.

The value of all the investments as at 31 January 2016 were agreed to external price sources and the portfolio holdings agreed to confirmations from the Company's Custodian.

The Managers and Auditor confirmed to the Committee that they were not aware of any material misstatements in the context of the Financial Statements as a whole.

Internal Controls and Risk Management

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems as described on pages 25 and 26. No significant weaknesses were identified in the year under review.

External Auditor

To fulfil its responsibility regarding the independence of the external Auditor, the Committee reviewed:

- The audit plan for the current year;
- A report from the Auditor describing their arrangements to manage auditor independence and received confirmation of their independence; and
- The extent of non-audit services provided by the external Auditor. There were no non-audit fees for the year to 31 January 2016.

To assess the effectiveness of the external Auditor, the Committee reviewed and considered:

- The Auditor's fulfilment of the agreed audit plan;
- Feedback from the Secretaries on the performance of the audit team; and
- The Audit Quality Inspection Report from the FRC.

To fulfil its responsibility for oversight of the external audit process the Committee considered and reviewed:

- The Auditor's engagement letter;
- The Auditor's proposed audit plan;
- The audit fee; and
- A report from the Auditor on the conclusion of the audit.

Governance Report

PricewaterhouseCoopers LLP have been engaged as Auditor for thirty one years. During the year to 31 January 2008 the Committee placed the audit out to tender. Following this process, the Committee agreed the continuing appointment of PricewaterhouseCoopers LLP as Auditor. The audit partners responsible for the audit are rotated at least every five years in accordance with professional and regulatory standards in order to protect independence and objectivity and to provide fresh challenge to the business. Ms Catrin Thomas, the current partner, was appointed over four years ago and will continue as partner until the conclusion of the 2017 audit.

PricewaterhouseCoopers LLP have confirmed that they believe they are independent within the meaning of regulatory and professional requirements and that the objectivity of the audit partner and staff is not impaired.

Having carried out the review described above, the Committee is satisfied that the Auditor remains independent and effective and as such, has not considered it necessary to conduct a tender process for the appointment of its Auditor at this stage.

The Committee, however, intends to undertake a tender process during the year to 31 January 2017 to coincide with the five year rotation cycle of the current partner Ms Thomas.

There are no contractual obligations restricting the Committee's choice of external auditors.

Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 31 to 35.

By order of the Board
Iain A McLaren
Chairman of the Audit Committee
24 March 2016

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of the Companies Act 2006.

Statement by the Chairman

The Directors' Remuneration Policy is subject to shareholder approval every three years or sooner if an alteration to the policy is proposed. The Remuneration Policy which is set out below was approved at the Annual General Meeting in May 2014 and no changes are proposed.

The Board reviewed the level of fees during the year and it was agreed that there would be no change to Directors' fees. It was agreed that with effect from 1 February 2016 the Chairman's fee should increase to an amount reflecting a 50% premium above the prevailing fee for Directors. Directors' fees were last increased on 1 February 2014 and the Chairman's fee was last increased on 1 August 2013.

Remuneration Policy

The Board is composed wholly of non-executive Directors, none of whom has a service contract with the Company. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co Limited, the Company Secretaries, provides comparative information when the Board considers the level of 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. The Board believes that the fees paid to the Directors should 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. Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Board's policy on remuneration.

Non-executive Directors are not eligible for any other remuneration or benefits apart from the reimbursement of allowable expenses.

There are no performance conditions relating to Directors' fees and there are no long-term incentive schemes or pension schemes. No compensation is payable on loss of office.

Limits on Directors' Remuneration

The fees for the non-executive Directors are payable six monthly in arrears and are determined within the limit set out in the Company's Articles of Association which is currently £150,000 in aggregate. Any change to this limit requires shareholder approval.

The basic and additional fees payable to Directors in respect of the year ended 31 January 2016 and the fees payable in respect of the year ending 31 January 2017 are set out in the table below. The fees payable to the Directors in the subsequent financial periods will be determined following an annual review of the Directors' fees.

	Expected fees for year ending 31 Jan 2017 £	Fees as at 31 Jan 2016 £
Chairman's fee	31,500	28,500
Non-executive Director fee	21,000	21,000
Additional fee for Chairman of the Audit Committee	2,500	2,500
Total aggregate annual fees that can be paid to the Directors in any year under the Directors' Remuneration Policy, as set out in the Company's Articles of Association	150,000	150,000

Annual Report on Remuneration

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 Auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on page 32.

Directors' Remuneration for the Year (audited)

The Directors who served during the year received the following remuneration in the form of fees and taxable benefits. This represents the entire remuneration paid to the Directors.

Name	2016 Fees £	2016 Taxable benefits* £	2016 Total £	2015 Fees £	2015 Taxable benefits* £	2015 Total £
MN Donaldson (appointed Chairman 21 May 2015)	26,148	763	26,911	10,500	50	10,550
PF Charig	21,000	1,884	22,884	21,000	2,301	23,301
IA McLaren	23,500	104	23,604	23,500	–	23,500
BM Rose (retired 21 May 2015)	8,769	252	9,021	28,500	181	28,681
MR Somerset Webb	21,000	104	21,104	21,000	–	21,000
SCN Somerville	21,000	658	21,658	21,000	1,728	22,728
	121,417	3,765	125,182	125,500	4,260	129,760

* Comprises travel and subsistence expenses incurred by Directors in the course of travel to attend Board and Committee meetings held at the Company's registered office in Edinburgh. These amounts have been grossed up for income tax and, if applicable, National Insurance contributions.

Sums Paid to Third Parties

The following Directors' fees were paid to third parties:

- SCN Somerville £nil (2015 – £19,250 was paid to Jupiter Asset Management, the remaining £1,750 was paid directly to Mr Somerville).

The payment was for making his services available as a Director of the Company.

Directors' Interests (audited)

Name	Nature of interest	Ordinary 10p shares held at 31 Jan 2016	Ordinary 10p shares held at 31 Jan 2015
MN Donaldson	Beneficial	4,504	946
PF Charig	—	—	—
IA McLaren	Beneficial	10,000	10,000
MR Somerset Webb	Beneficial	3,557	3,557
SCN Somerville	Beneficial	10,000	10,000

The Directors are not required to hold shares in the Company. The Directors at the year end, and their interests in the Company, were as shown above. Mr BM Rose had a beneficial holding of 51,882 ordinary shares in the Company at the date of his retirement on 21 May 2015. Following the year end Mr MN Donaldson purchased a further 651 shares. There have been no changes intimated in the Directors' interests up to 23 March 2016.

Statement of Voting at Annual General Meeting

At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Report, 99.4% were in favour, 0.4% were against and votes withheld were 0.2%.

Relative Importance of Spend on Pay

As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

Directors' Service Details

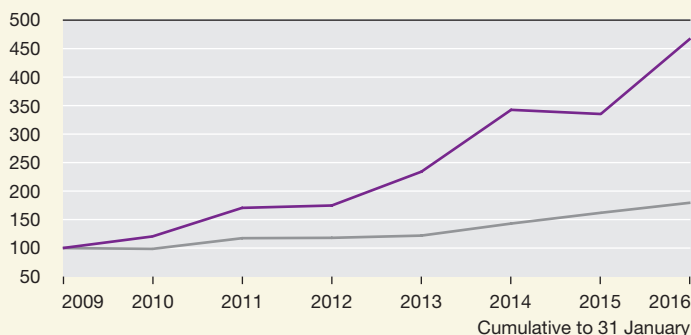
Name	Date of appointment	Due date for re-election
MN Donaldson	1 August 2014	AGM in 2018
PF Charig	25 February 2005	AGM in 2016
IA McLaren	16 January 2009	AGM in 2018
MR Somerset Webb	4 October 2011	AGM in 2018
SCN Somerville	17 June 2010	AGM in 2017

Company Performance

The following graph compares the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total shareholder return on a notional investment made up of shares in the component parts of the Company's comparative index. 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.

Performance Graph

(figures have been rebased to 100 at 31 January 2009)



Source: Thomson Reuters Datastream/Baillie Gifford.

— Baillie Gifford Shin Nippon's share price†
— Comparative Index*

† Total return (assuming net dividends are reinvested).

* The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms). Prior to 1 February 2010 the comparative index comprised a composite of the Tokyo Second Section Index, the TOPIX Small Index and the JASDAQ Index, weighted by market capitalisation, in sterling terms (this index was capital only due to the unavailability of total return data). For the purposes of the graph above the returns on these indices for their respective periods have been linked together to form a single comparative index.

Past performance is not a guide to future performance.

Approval

The Directors' Remuneration Report on pages 29 and 30 was approved by the Board of Directors and signed on its behalf on 24 March 2016.

M Neil Donaldson
Chairman

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

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they 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 these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors have delegated responsibility to the Managers for the maintenance and integrity of the Company's page on the Managers' website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed within the Directors and Management section, confirm that, to the best of their knowledge:

- the Financial Statements, which have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) give a true and fair view of the assets, liabilities, financial position and net return of the Company;
- the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and
- the Strategic Report includes a fair review 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 it faces.

By order of the Board
M Neil Donaldson
Chairman
24 March 2016

Notes

The following notes relate to financial statements published on a website and are not included in the printed version of the Annual Report and Financial Statements:

- The maintenance and integrity of the Baillie Gifford website is the responsibility of Baillie Gifford; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the members of Baillie Gifford Shin Nippon PLC

Report on the financial statements

Our opinion

In our opinion, Baillie Gifford Shin Nippon PLC's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 January 2016 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), comprise:

- the Balance Sheet as at 31 January 2016;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Our audit approach

Overview

Materiality

- Overall materiality: £1.6m which represents 1% of net assets.

Audit scope

- The Company is a standalone Investment Trust Company and has engaged Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as the Company's Alternative Investment Fund Manager and Company Secretary. Baillie Gifford & Co Limited have delegated the investment management function to Baillie Gifford & Co (the 'Manager').
- We conducted our audit of the financial statements at Baillie Gifford & Co.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

Areas of focus

- Income.
- Valuation and existence of investments.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus	Area of focus	How our audit addressed the area of focus
<p>Income</p> <p><i>Refer to page 27 (Audit Committee Report), page 40 (Accounting Policies) and page 41 (notes).</i></p> <p><i>ISAs (UK & Ireland) presume there is a risk of fraud in income recognition. We considered this risk to specifically relate to the risk of overstating investment gains and the misclassification of dividend income as capital rather than revenue due to the pressure management may feel to achieve capital growth in line with the objective of the Company.</i></p> <p><i>We focused on the valuation of investments with respect to gains on investments and the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP').</i></p> <p><i>Investment gains in the year amounted to £33m. Dividend income totalled £1.8m.</i></p>	<p>We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.</p> <p>For investment gains and losses, we tested the valuation of the portfolio at the year-end, together with testing the reconciliation of opening and closing investments. No misstatements were identified.</p> <p>We understood and assessed the design and implementation of key controls surrounding income recognition. This included considering the relevant controls tested and reported upon through the Baillie Gifford & Co AAF01/06 and ISAE3402 Type II Reporting Accountants Assurance Report on Internal Controls for the year ended 30 April 2015 and reviewing the reports presented by Baillie Gifford & Co's Internal Auditors.</p> <p>In addition, we tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends.</p> <p>We tested the allocation and presentation of dividend income between the income and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. No dividends were allocated to capital.</p> <p>We also tested a sample of journals to ascertain whether any inappropriate journals had been posted to income. No issues were identified through our testing in this area.</p>	<p>Valuation and existence of investments</p> <p><i>Refer to page 27 (Audit Committee Report), page 40 (Accounting Policies) and page 43 (notes).</i></p> <p><i>The investment portfolio at the year-end 31 January 2016 comprised listed equity investments valued at £178m.</i></p> <p><i>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.</i></p>	<p>We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from Bank of New York Mellon SA/NV. No differences were identified.</p>
		<p>How we tailored the audit scope</p>	<p>We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the types of investments within the Company, the involvement of the Manager, the accounting processes and controls, and the industry in which the Company operates.</p>
		<p>As part of our risk assessment, we assessed the control environment in place at the Manager to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control report issued by the independent auditor of the Manager in accordance with generally accepted assurance standards for such work to gain an understanding of the Manager's control environment and to consider the operating and accounting structure at the Manager. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.</p>	<p></p>
		<p>Materiality</p>	<p>The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.</p>

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1.6m (2015: £1.3m).
How we determined it	1% of net assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £82,000 (2015: £65,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 26, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 24 to 26 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

information in the Annual Report is:	<i>We have no exceptions to report.</i>
— materially inconsistent with the information in the audited financial statements; or	
— apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or	
— otherwise misleading.	

the statement given by the Directors on page 31, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.

We have no exceptions to report.

the section of the Annual Report on pages 27 and 28, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the Directors' confirmation on page 6 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. We have nothing material to add or to draw attention to.
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. We have nothing material to add or to draw attention to.
- the Directors' explanation on page 7 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence understanding the control environment at the Manager and through substantive procedures.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
24 March 2016

Income Statement

For the year ended 31 January

	Notes	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Gains on investments*	8	–	32,548	32,548	–	12,806	12,806
Currency gain†	13	–	21	21	–	658	658
Income	2	1,798	–	1,798	1,554	–	1,554
Investment management fee	3	(1,123)	–	(1,123)	(897)	–	(897)
Other administrative expenses	4	(362)	–	(362)	(381)	–	(381)
Net return before finance costs and taxation		313	32,569	32,882	276	13,464	13,740
Finance costs of borrowings	5	(423)	–	(423)	(495)	–	(495)
Net return on ordinary activities before taxation		(110)	32,569	32,459	(219)	13,464	13,245
Tax on ordinary activities	6	(180)	–	(180)	(155)	–	(155)
Net return on ordinary activities after taxation		(290)	32,569	32,279	(374)	13,464	13,090
Net return per ordinary share	7	(0.78p)	87.14p	86.36p	(1.01p)	36.35p	35.34p

* Gains on investments include gains and losses on disposals and holding gains and losses on the investment portfolio resulting from:
i) changes in the local currency fair value of the investments and, ii) movements in the yen/sterling exchange rate.

† Currency gains include: i) currency exchange gains and losses on yen bank loans, ii) exchange differences on the settlement of investment transactions and, iii) other exchange differences arising from the retranslation of cash balances.

The total column of this statement is the profit and loss account of the Company. The revenue and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in this statement derive from continuing operations.

The accompanying notes on pages 40 to 49 are an integral part of the Financial Statements.

Balance Sheet

As at 31 January

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Investments	8		177,731		140,006
Current assets					
Debtors	9	595		757	
Cash and cash equivalents	17	5,106		8,181	
			5,701		8,938
Creditors					
Amounts falling due within one year	10	(615)		(1,415)	
Net current assets					
			5,086		7,523
Total assets less current liabilities					
			182,817		147,529
Creditors					
Amounts falling due after more than one year	11		(19,427)		(18,894)
Net assets					
			163,390		128,635
Capital and reserves					
Called up share capital	12		3,778		3,718
Share premium account	13		25,733		23,317
Capital redemption reserve	13		21,521		21,521
Capital reserve	13		117,715		85,146
Revenue reserve	13		(5,357)		(5,067)
Shareholders' funds					
			163,390		128,635
Net asset value per ordinary share					
(after deducting borrowings at book value)	14		432.5p		346.0p
Net asset value per ordinary share					
(after deducting borrowings at fair value)	14		431.0p		343.7p
Net asset value per ordinary share					
(after deducting borrowings at par value)	14		432.3p		345.8p

The Financial Statements of Baillie Gifford Shin Nippon PLC (Company Registration Number SC093345) on pages 36 to 49 were approved and authorised for issue by the Board and were signed on 24 March 2016.

M Neil Donaldson
Chairman

The accompanying notes on pages 40 to 49 are an integral part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 January 2016

	Notes	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2015		3,718	23,317	21,521	85,146	(5,067)	128,635
Ordinary shares issued	13	60	2,416	–	–	–	2,476
Net return on ordinary activities after taxation	13	–	–	–	32,569	(290)	32,279
Shareholders' funds at 31 January 2016		3,778	25,733	21,521	117,715	(5,357)	163,390

For the year ended 31 January 2015

		Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2014		3,668	21,783	21,521	71,682	(4,693)	113,961
Ordinary shares issued		50	1,534	–	–	–	1,584
Net return on ordinary activities after taxation		–	–	–	13,464	(374)	13,090
Shareholders' funds at 31 January 2015		3,718	23,317	21,521	85,146	(5,067)	128,635

The accompanying notes on pages 40 to 49 are an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 January

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Cash flows from operating activities				
Net return on ordinary activities before taxation	32,459		13,245	
Net gains on investments	(32,548)		(12,806)	
Currency gains	(21)		(658)	
Finance costs of borrowings	423		495	
Overseas withholding tax	(160)		(148)	
Increase in accrued income and prepaid expenses	(193)		(71)	
Increase in creditors and prepaid income	31		47	
Cash (outflow)/inflow from operations		(9)		104
Interest paid		(416)		(480)
Net cash outflow from operating activities		(425)		(376)
Cash flows from investing activities				
Acquisitions of investments	(29,859)		(15,482)	
Disposals of investments	24,197		15,182	
Net cash outflow from investing activities		(5,662)		(300)
Shares issued	2,476		1,584	
Net cash inflow from financing activities		2,476		1,584
(Decrease)/increase in cash and cash equivalents		(3,611)		908
Exchange movements		536		(333)
Cash and cash equivalents at start of year		8,181		7,606
Cash and cash equivalents at end of year*		5,106		8,181

* Cash and cash equivalents represent cash at bank and short term money market deposits repayable on demand.

The accompanying notes on pages 40 to 49 are an integral part of the Financial Statements.

Notes to the Financial Statements

1 Principal Accounting Policies

The Financial Statements for the year to 31 January 2016 have been prepared on the basis of the accounting policies set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102') has been introduced which the Company must adopt for its financial year ending 31 January 2016. Following the application of the new reporting standard and the AIC's issued Statement of Recommended Practice, there has been no impact on the Company's Income Statement, Balance Sheet or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for the period previously reported. The Cash Flow Statement reflects the presentational requirements of FRS 102, which are different to FRS 1. In addition, the Cash Flow Statement reconciles to cash and cash equivalents whereas under previous UK GAAP the Cash Flow Statement reconciled to cash. Note 13 'Capital and Reserves' identifies which reserves are distributable. The Company has early adopted the amendments to Section 34 of FRS 102 regarding fair value hierarchy disclosures (see note 17 on page 49).

(a) Basis of Accounting

All of the Company's operations are of a continuing nature and 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 derivative financial instruments at fair value through profit or loss, and on the assumption that approval as an investment trust under section 1158 of the Corporation Tax Act 2010 will be retained.

The Financial Statements have been prepared in accordance with the Companies Act 2006, applicable UK Accounting Standards and with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014.

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.

The Company has only one material segment being that of an investment trust company, investing principally in small Japanese companies.

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 and its investment manager, who are subject to the UK's regulatory environment are also UK based.

(b) Investments

Purchases and sales of investments are accounted for on a trade date basis.

Investments in securities are held 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 is the last traded price which is equivalent to the bid price on Japanese markets.

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 the fair value of investments and gains and losses on disposal are recognised as capital items in the Income Statement.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and deposits 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) Overseas dividends include withholding tax deducted at source.
- (iv) Interest receivable on bank deposits are recognised on an accruals basis.
- (v) If scrip is taken in lieu of dividends in cash, the net amount of the equivalent cash dividend is credited to the revenue account. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.

(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. Expenses directly relating to the issuance of shares are deducted from the proceeds of such issuance.

(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 are wholly charged to capital.

(g) Deferred Taxation

Deferred taxation is provided on an undiscounted basis on all timing differences which have originated but not reversed by the balance sheet date, calculated at the tax rates expected to apply when the timing differences reverse, based on what has been enacted or substantially enacted, 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 as appropriate.

(i) Capital Reserve

Gains and losses on disposal of investments, changes in the fair value of investments held, exchange differences of a capital nature and the amount by which other assets and liabilities valued at fair value differ from their book cost are dealt with in this reserve. Purchases of the Company's own shares are also funded from this reserve.

2 Income

	2016 £'000	2015 £'000
Income from investments		
Listed overseas dividends	1,798	1,554
Total income	1,798	1,554
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	1,798	1,554
Total income	1,798	1,554

3 Investment Management Fee – all charged to revenue

	2016 £'000	2015 £'000
Investment management fee	1,123	897

Details of the Investment Management Agreement are set out on page 21. The annual management fee is 0.95% on the first £50m of net assets and 0.65% on the remaining net assets, calculated quarterly.

4 Other Administrative Expenses

	2016 £'000	2015 £'000
General administrative expenses	220	274
Directors' fees (see Directors' Remuneration Report on pages 29 and 30)	121	126
Auditor's remuneration – statutory audit of the Company's Financial Statements*	21	19
	362	419
Share issuance expenses deducted from issuance proceeds	–	(38)
Other administrative expenses charged to revenue	362	381

* Fee for 2016 of £21,000 includes a one-off fee of £2,000 for audit work relating to the introduction of FRS 102 and the new UK Corporate Governance Code.

5 Finance Costs of Borrowings

	2016 £'000	2015 £'000
Interest on bank loans	423	495

6 Tax on Ordinary Activities

	2016 £'000	2015 £'000
Analysis of charge in year		
Overseas taxation	180	155
Factors affecting tax charge for year		
The tax assessed for the year is lower (2015 – lower) than the standard rate of corporation tax in the UK of 20.17% (2015 – 21.33%)		
The differences are explained below:		
Net return on ordinary activities before taxation	32,459	13,245
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.17% (2015 – 21.33%)	6,547	2,825
Effects of:		
Capital returns not taxable	(6,569)	(2,872)
Income not taxable	(364)	(325)
Overseas withholding tax	180	155
Taxable losses in year not utilised	386	372
Total tax charge for the year	180	155

As an investment trust, the Company's capital gains are not subject to tax.

The standard rate of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's profits for the year to 31 January 2016 are taxed at an effective rate of 20.17%.

Factors that may affect future tax charges

At 31 January 2016 the Company had a potential deferred tax asset of £2,679,000 (2015 – £2,297,000) on taxable losses which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been recognised 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 20% (2015 – 20%).

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to retain approval for 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.

7 Net Return per Ordinary Share

	2016 Revenue	2016 Capital	2016 Total	2015 Revenue	2015 Capital	2015 Total
Net return on ordinary activities after taxation	(0.78p)	87.14p	86.36p	(1.01p)	36.35p	35.34p

Revenue return per ordinary share is based on the net revenue loss on ordinary activities after taxation of £290,000 (2015 – loss of £374,000) and on 37,377,963 ordinary shares (2015 – 37,038,511) being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on the net capital gain for the financial year of £32,569,000 (2015 – net capital gain of £13,464,000) and on 37,377,963 ordinary shares (2015 – 37,038,511) being the weighted average number of ordinary shares in issue during the year.

There are no dilutive or potentially dilutive shares in issue.

8 Fixed Assets – Investments

	2016 £'000	2015 £'000
Financial assets at fair value through profit or loss		
Listed overseas – equity investments	177,731	140,006
Total investments in financial assets at fair value through profit or loss	177,731	140,006

	Listed equities £'000
Cost of investments held at 1 February 2015	80,956
Investment holding gains at 1 February 2015	59,050
Fair value of investments held at 1 February 2015	140,006
Movements in year:	
Purchases at cost	29,039
Sales – proceeds	(23,862)
– gains on sales	8,630
Changes in investment holding gains	23,918
Fair value of investments held at 31 January 2016	177,731
Cost of investments held at 31 January 2016	94,763
Investment holding gains at 31 January 2016	82,968
Fair value of investments held at 31 January 2016	177,731

The gains on sales of £8,630,000 and increase in investment holding gains of £23,918,000 include amounts relating to: i) changes in local currency fair value of the investments and, ii) movements in the yen/sterling exchange rate.

The purchases and sales proceeds figures above include transaction costs of £14,000 (2015 – £12,000) and £8,000 (2015 – £10,000) respectively. Of the gains on sales during the year of £8,630,000 (2015 – gains of £3,749,000), a net gain of £6,840,000 (2015 – net gain of £3,911,000) was included in the investment holding gains at the previous year end.

	2016 £'000	2015 £'000
Net gains on investments		
Gains on sales	8,630	3,749
Changes in investment holding gains	23,918	9,057
	32,548	12,806

9 Debtors

	2016 £'000	2015 £'000
Income accrued (net of withholding tax) and prepayments	420	246
Sales for subsequent settlement	156	491
Other debtors	19	20
	595	757

The debtors above are stated at amortised cost which is a reasonable approximation to fair value.

10 Creditors – amounts falling due within one year

	2016 £'000	2015 £'000
Purchases for subsequent settlement	190	1,010
Other creditors and accruals	425	405
	615	1,415

Included in creditors is £303,000 (2015 – £247,000) in respect of the investment management fee.
The creditors above are stated at amortised cost which is a reasonable approximation to fair value.

11 Creditors – amounts falling due after more than one year

	2016 £'000	2015 £'000
Bank loan	19,427	18,894

The bank loan is stated after deducting the arrangement fee of £123,000 which is amortised over the term of the loan. Amortisation of the arrangement fee during the year was £18,000 (2015 – £18,000).

Borrowing facilities

The Company has a 7 year fixed rate loan with ING Bank N.V. for ¥3,350 million – drawn down as follows:

At 31 January 2016

ING Bank N.V. – 7 year ¥3,350 million loan at 2.217% maturing 27 November 2020.

At 31 January 2015

ING Bank N.V. – 7 year ¥3,350 million loan at 2.517% maturing 27 November 2020.

The covenants relating to the ING Bank N.V. loan are as follows:

- (i) Total borrowings shall not exceed 35% of the Company's net asset value; and
- (ii) The Company's minimum net asset value shall be £58 million.

There were no breaches in loan covenants during the year.

Security has been provided to ING Bank N.V. in respect of the ¥3,350 million loan by way of a floating charge.

The interest rate and maturity profiles of the bank loans are shown in note 17.

12 Called Up Share Capital

	2016 Number	2016 £'000	2015 Number	2015 £'000
Allotted and fully paid ordinary shares of 10p each	37,775,497	3,778	37,175,497	3,718

At 31 January 2016 the Company had authority to buy back 5,572,607 shares. No shares were bought back during the year (2015 – nil). Share buy-backs are funded from the capital reserve.

During the year the Company issued 600,000 shares on a non pre-emptive basis at a premium to net asset value for net proceeds of £2,476,000 (2015 – 500,000 shares for net proceeds of £1,584,000).

13 Capital and Reserves

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 February 2015	3,718	23,317	21,521	85,146	(5,067)	128,635
Ordinary shares issued – gross proceeds	60	2,416	–	–	–	2,476
Net gain on disposal of investments	–	–	–	8,630	–	8,630
Changes in investment holding gains	–	–	–	23,918	–	23,918
Exchange differences on bank loans	–	–	–	(515)	–	(515)
Exchange differences on settlement of investment transactions	–	–	–	260	–	260
Other exchange differences	–	–	–	276	–	276
Net revenue return for the year	–	–	–	–	(290)	(290)
At 31 January 2016	3,778	25,733	21,521	117,715	(5,357)	163,390

The capital reserve includes investment holding gains of £82,968,000 (2015 – gains of £59,050,000) as disclosed in note 8. The revenue reserve and the capital reserve (to the extent it constitutes realised profits) are distributable.

14 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net asset value attributable to the ordinary shareholders at the year end (deducting borrowings at book value) were as follows:

	2016	2015	2016 £'000	2015 £'000
Ordinary shares	432.5p	346.0p	163,390	128,635

Net asset value per ordinary share is based on the net assets as shown above and on 37,775,497 (2015 – 37,175,497) ordinary shares, being the number of ordinary shares in issue at the year end.

Deducting borrowings at par would have the effect of reducing the net asset value per ordinary share from 432.5p to 432.3p (2015 – reducing net asset value per ordinary share from 346.0p to 345.8p)

Deducting borrowings at fair value would have the effect of reducing the net asset value per ordinary share to 431.0p. Taking the market price of the ordinary shares at 31 January 2016 of 448.0p, this would have given a premium to net asset value of 3.9% as against 3.6% on the basis of deducting borrowings at par. At 31 January 2015 the net asset value after deducting borrowings at fair value was 343.7p.

Taking the market value of the ordinary shares at 31 January 2015 of 321.0p, this would have given a discount to net asset value of 6.6%. The basis of deducting borrowings at par would have given a discount to net asset value of 7.2%.

15 Contingent Liabilities, Guarantees and Financial Commitments

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

16 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 29. No Director has a contract of service with the Company. During the years reported no Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.

17 Financial Instruments and Risk Management

As an Investment Trust, the Company invests in small Japanese company securities 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 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 Company may enter into derivative transactions as explained in the Objective and Policy on page 6. No such transactions were undertaken in the year under review.

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

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 Managers both assess the exposure to market risk when making individual investment decisions and monitor the overall level of market risk across the investment portfolio on an ongoing basis. Details of the Company's investment portfolio are shown in note 8.

(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 Managers monitor the Company's yen exposure (and any other overseas currency exposure) and report to the Board on a regular basis. The Investment Managers assess 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 country in which a company is listed is not necessarily where 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 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, although none have been used in the current or prior year.

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	Bank loans £'000	Other debtors and creditors * £'000	Net exposure £'000
At 31 January 2016					
Yen	177,731	5,049	(19,427)	121	163,474
Total exposure to currency risk	177,731	5,049	(19,427)	121	163,474
Sterling	–	57	–	(141)	(84)
	177,731	5,106	(19,427)	(20)	163,390

* Includes net non-monetary assets of £15,000.

	Investments £'000	Cash and deposits £'000	Bank loans £'000	Other debtors and creditors * £'000	Net exposure £'000
At 31 January 2015					
Yen	140,006	8,137	(18,894)	(358)	128,891
Total exposure to currency risk	140,006	8,137	(18,894)	(358)	128,891
Sterling	–	44	–	(300)	(256)
	140,006	8,181	(18,894)	(658)	128,635

* Includes net non-monetary assets of £16,000.

17 Financial Instruments and Risk Management (continued)

Currency Risk (continued)

Currency Risk Sensitivity

At 31 January 2016, 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 £16,347,000 (2015 – £12,889,000). A 10% weakening of sterling against the yen, with all other variables held constant, would have had a similar but opposite effect on the Financial Statement amounts.

(ii) Interest Rate Risk

Interest rate movements may affect directly the level of income receivable on cash deposits. 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 financial assets and liabilities at 31 January 2016 is shown below. There was no significant change to the interest rate risk profile during the year.

Financial Assets

	2016 Fair value £'000	2016 Weighted average interest rate	2015 Fair value £'000	2015 Weighted average interest rate
Cash:				
Yen	5,049	nil	8,137	nil
Sterling	57	0.01%	44	0.01%
	5,106		8,181	

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 financial liabilities at 31 January was:

	2016 Book value £'000	2016 Weighted average interest rate	2016 Weighted average period until maturity	2015 Book value £'000	2015 Weighted average interest rate	2015 Weighted average period until maturity
Bank loans:						
Yen denominated – fixed rate	19,427	2.2%	58 months	18,894	2.5%	70 months

An interest rate risk sensitivity analysis has not been performed as the Company does not hold bonds and has borrowed funds at a fixed rate of interest.

(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 8.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Managers. 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 17 to 18. 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 15 and 16.

108.8% of the Company's net assets are invested in Japanese quoted equities (2015 – 108.8%). A 10% increase in quoted equity valuations at 31 January 2016 would have increased total net assets and net return on ordinary activities after taxation by £17,773,000 (2015 – £14,001,000). A decrease of 10% would have had an equal but opposite effect. This analysis does not include the effect on the management fee of changes in quoted equity valuations.

17 Financial Instruments and Risk Management (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 in normal market conditions as the majority of the Company's assets are in investments that are readily realisable.

The Company's investment portfolio is in Japanese small-cap equities which are typically less liquid than larger capitalisation stocks. The Managers monitor the liquidity of the portfolio on an ongoing basis and relevant guidelines are in place.

The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding (see Objective and Policy on page 6).

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

	2016 £'000	2015 £'000
In less than one year:		
– accumulated interest	440	485
In more than one year but not more than five years:		
– repayment of loan	19,507	–
– accumulated interest	1,677	1,940
In more than five years:		
– repayment of loan	–	18,989
– accumulated interest	–	400
	21,624	21,814

The Company has the power to take out borrowings, which gives it access to additional funding when required.

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:

- The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. The Depositary has delegated the custody function to Bank of New York Mellon SA/NV London Branch. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Managers monitor the Company's risk by reviewing the custodian's internal control reports and reporting their findings to the Board;
- Investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Investment Managers. 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 creditworthiness of the counterparty to transactions involving derivatives, structured notes and other arrangements, wherein the creditworthiness 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 Managers; and
- At 31 January 2016 and 2015, all cash deposits were held with the custodian banks. The credit risk of the custodian is reviewed as detailed above. Cash may also be held at banks that are regularly reviewed by the Managers. If the credit rating of a bank where a cash deposit was held fell significantly, the Managers would endeavour to move the cash to an institution with a superior credit rating.

Credit Risk Exposure

The maximum exposure to credit risk at 31 January was:

	2016 £'000	2015 £'000
Cash and deposits	5,106	8,181
Debtors	580	741
	5,686	8,922

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

17 Financial Instruments and Risk Management (continued)

Fair Value of Financial Assets and Financial Liabilities

The Company's investments are stated at fair value and the Directors are of the opinion that the reported values of the Company's other financial assets and liabilities approximate to fair value with the exception of the long term borrowings which are stated at amortised cost. The fair value of the loans is shown below.

	2016 Book value £'000	2016 Par value £'000	2016 Fair* value £'000	2015 Book value £'000	2015 Par value £'000	2015 Fair* value £'000
Fixed rate yen bank loans	19,427	19,507	20,022	18,894	18,989	19,745

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

Capital Management

The Company does not have any externally imposed capital requirements other than the loan covenants detailed in note 11 on page 44. The capital of the Company is the ordinary share capital as detailed in note 12. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 6, and shares may be repurchased or issued as explained on pages 22 and 23.

Fair Value of Financial Instruments

Fair values are measured using the following fair value hierarchy:

Level 1 – reflects financial instruments quoted in an active market.

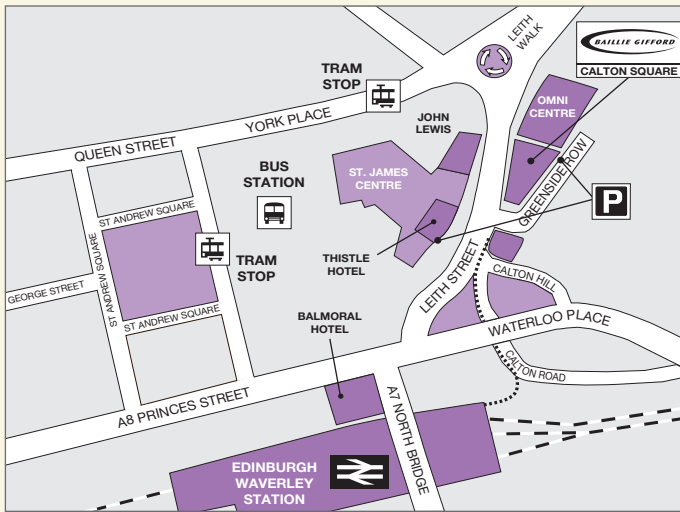
Level 2 – reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets.

Level 3 – reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

The valuation techniques used by the Company are explained in the accounting policies on page 40.

The financial assets designated as valued at fair value through profit or loss are all categorised as Level 1 in the above hierarchy. None of the financial liabilities are designated at fair value through profit or loss in the Financial Statements.




Notice of Annual General Meeting



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 Friday, 20 May 2016 at 10.00am.

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.

	By Rail: Edinburgh Waverley – approximately a 5 minute walk away
	By Bus: Lothian Buses local services include: 1, 5, 7, 8, 10, 12, 14, 15, 15A, 16, 22, 25, 34
	By Tram: Stops at St Andrew Square and York Place
..... Access to Waverley Train Station on foot	

Notice is hereby given that the thirty first Annual General Meeting of Baillie Gifford Shin Nippon PLC will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on 20 May 2016 at 10.00am for the following purposes:

Ordinary Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

- To receive and adopt the Financial Statements of the Company for the year ended 31 January 2016 with the Reports of the Directors and of the Independent Auditor thereon.
- To approve the Directors' Annual Report on Remuneration for the year ended 31 January 2016.
- To re-elect Mr PF Charig as a Director.
- To reappoint PricewaterhouseCoopers LLP as Independent Auditor of the Company.
- To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.
- That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ('Securities') provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £1,273,349.90 (representing 33.33% of the Company's total issued share capital as at 23 March 2016), such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously

revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, to pass resolutions 7 and 8 as Special Resolutions:

- That, subject to the passing of Resolution 6 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Sections 570 and 573 of the Companies Act 2006 ('the Act') to allot equity securities (within the meaning of Section 560(1) of the Act) for cash pursuant to the authority given by resolution 6 above and to sell treasury shares wholly for cash as if Section 561(1) of the Act did not apply to any such allotment or sale, provided that this power:
 - expires at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or on the expiry of 15 months from the passing of this Resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
 - shall be limited to the allotment of equity securities up to an aggregate nominal value of £382,004.90 being approximately 10% of the nominal value of the issued share capital of the Company, as at 23 March 2016.

8. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid ordinary shares of 10 pence each in the capital of the Company ('ordinary shares') (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:
- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 5,726,254 being approximately 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 (excluding expenses) which may be paid for each ordinary share is 10 pence;
 - (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:
 - (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
 - (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and
 - (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting to be held in respect of the year ending 31 January 2017, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary 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 ordinary shares pursuant to any such contract.

By order of the Board
Baillie Gifford & Co Limited
Managers and Secretaries
13 April 2016

Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the Financial Statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or www.eproxyappointment.com no later than 2 days (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than 2 days (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Shareholder Information

5. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. 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.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
10. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
12. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the Auditor) setting out any matter relating to the audit of the Company's Financial Statements, including the Auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or 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. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
13. Information regarding the Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at www.shinnippon.co.uk.
14. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.
15. As at 23 March 2016 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 38,200,497 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 23 March 2016 were 38,200,497 votes.
16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
17. No Director has a contract of service with the Company.

Further Shareholder Information

Baillie Gifford Shin Nippon 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.

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 pages 54 and 55 for details). If you are interested in investing directly in Baillie Gifford Shin Nippon, 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 Company's page on Baillie Gifford's website at www.shinnippon.co.uk, 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.

Baillie Gifford Shin Nippon Share Identifiers

ISIN GB0000706274

Sedol 0070627

Ticker BGS

The ordinary shares of the Company are listed on the London Stock Exchange and their price is shown in the Financial Times and The Scotsman.

Key Dates

The Annual Report and Financial Statements are normally issued in March or early April and the AGM is normally held at the end of April or during May.

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:

	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
	50.00p	

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	178.00p
Cost of each warrant 2005	76.85p	83.00p

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

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 0370 889 3223.

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; and
- order Change of Address and Stock Transfer forms.

By quoting the reference number on your share certificate you can check your holding on the Registrar's website at www.investorcentre.co.uk.

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;
- change address details; and
- use online dealing services.

To take advantage of this service, please log in at www.investorcentre.co.uk and enter your Shareholder Reference Number and Company Code (this information can be found on your share certificate).

Electronic Proxy Voting

If you hold stock in your own name you can choose to vote by returning proxies electronically at www.investorcentre.co.uk/eproxy.

If you have any questions about this service please contact Computershare on 0370 889 3223.

CREST Proxy Voting

If you are a user of the CREST system (including a CREST Personal Member), you may appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. For further information please refer to the CREST Manual.

Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as information only.

Shareholder Information

These Financial Statements have been approved by the Directors of Baillie Gifford Shin Nippon PLC. Baillie Gifford Savings Management Limited (BGSM) 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. BGSM is wholly owned by Baillie Gifford & Co. Both are authorised and regulated by the Financial Conduct Authority. Baillie Gifford only provides information about its products and does not provide investment advice. The staff of Baillie Gifford and Baillie Gifford Shin Nippon's Directors may hold shares in Baillie Gifford Shin Nippon and may buy or sell such shares from time to time.

Analysis of Shareholders at 31 January

	2016 Number of shares held	2016 %	2015 Number of shares held	2015 %
Institutions	7,058,711	18.7	9,000,501	24.2
Intermediaries	25,668,223	68.0	23,123,094	62.2
Individuals*	2,845,297	7.5	2,569,846	6.9
Baillie Gifford				
Share Plans/ISA	2,115,271	5.6	2,048,631	5.5
Marketmakers	87,995	0.2	433,425	1.2
	37,775,497	100.0	37,175,497	100.0

* Includes all holdings under 5,000 shares.

Cost-effective Ways to Buy and Hold Shares in Baillie Gifford Shin Nippon



The Investment Trust ISA and Share Plan brochure available at www.shinnippon.com



Press advertisement for The Baillie Gifford Children's Savings Plan

Baillie Gifford Savings Management Limited offers a number of plans that enable you to buy and hold shares in Baillie Gifford Shin Nippon cost-efficiently. Purchases and sales are normally subject to a dealing price spread and Government stamp duty of 0.5% is payable on purchases.

The Baillie Gifford Investment Trust Share Plan

- No initial charge
- No annual wrapper charge
- Normally cheaper than dealing through a stockbroker
- Invest a lump sum from £250 or monthly from just £30
- No maximum investment limits
- Stop and start saving at any time with no charge
- Twice weekly dealing (usually Tuesday and Friday)
- A withdrawal charge of just £22

The Baillie Gifford Investment Trust ISA

- Tax-efficient investment
- No set-up charge
- Flat rate annual management charge currently of £32.50 + VAT
- Lump sum investment from £2,000 currently up to a maximum of £15,240 each year
- Save monthly from £100
- A withdrawal charge of just £22

ISA Transfers

- Transfer existing ISAs from other plan managers into the Baillie Gifford ISA
- Consolidate your plans into a managed global investment
- Minimum transfer value £2,000

The Baillie Gifford Children's Savings Plan

- An excellent way for parents, grandparents or other adults to invest for a child
- No initial charge
- No annual wrapper charge
- The option of a designated account or a bare trust in favour of the child
- Flexible investment options: lump sum from £100 or monthly saving from just £25
- A withdrawal charge of just £22

Online Management Service

You can also open and manage your Share Plan, Children's Savings Plan* and/or ISA online, through our secure Online Management Service (OMS) which can be accessed through the Baillie Gifford website www.bailliegifford.com/oms. As well as being able to view the details of your plan online, the service also allows you to:

- obtain current valuations;
- make lump sum investments, except where there is more than one holder;
- switch between investment trusts, except where there is more than one holder;
- set up a direct debit to make regular investments;
- sell part or all of your holdings, except where there is more than one holder; and
- update certain personal details e.g. address and telephone number.

*Please note that a bare trust cannot be opened via OMS. A bare trust application form must be completed. Certain restrictions apply where there is more than one holder.

Further information

If you would like more information on any of the plans described, please contact the Baillie Gifford Client Relations Team. (See contact details on page 57).

Risks

Past performance is not a guide to future performance.

Baillie Gifford Shin Nippon is a UK listed company. The value of the shares can fall as well as rise and you may not get back the amount you invested.

As Baillie Gifford Shin Nippon 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 Shin Nippon has borrowed money to make further investments (sometimes known as 'gearing' or 'leverage'). 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 Shin Nippon can make use of derivatives. The use of derivatives may impact on its performance. Currently the Company does not make use of derivatives.

Baillie Gifford Shin Nippon can buy back its own shares. The risks from borrowing, referred to above, are increased when the Company buys back its own shares.

Market values for securities which have become difficult to trade may not be readily available, and there can be no assurance that any value assigned to such securities will accurately reflect the price the Company might receive upon their sale.

Baillie Gifford Shin Nippon invests in smaller companies which are 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.

The Company's exposure to a single market and currency may increase risk.

Charges are deducted from income. Where income is low the expenses may be greater than the total income received, meaning the Company may not pay a dividend and the capital value would be reduced.

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.

You should note that tax rates and reliefs may change at any time and their value depends on your circumstances.

The favourable tax treatment of ISAs may change.

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 Conduct Authority.

The information and opinions expressed in this document are subject to change without notice.

Details of other risks that apply to investment in the savings vehicles are contained in the product brochures.

Further details of the risks associated with investing in the Company, including how charges are applied, can be found at www.shinnippon.co.uk, or by calling Baillie Gifford on 0800 917 2112.

This information has been issued and approved by Baillie Gifford & Co Limited, the Managers and Secretaries, and does not in any way constitute investment advice.

Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Baillie Gifford & Co Limited, is required to be made available to investors. In accordance with the Directive, the AIFM remuneration policy is available from Baillie Gifford & Co Limited on request (see contact details on the back cover) and the numerical remuneration disclosures in respect of the AIFM's first relevant reporting period (year ended 31 March 2016) will be made available in due course.

The Company's maximum and actual leverage levels (see Glossary of Terms below) at 31 January 2016 are as follows:

Leverage

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.12:1	1.12:1

The Common Reporting Standard

As of 1 January 2016 a new piece of tax legislation, The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information ('The Common Reporting Standard'), comes into effect.

The legislation will require investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. As an affected company, Baillie Gifford Shin Nippon PLC will have to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

All new shareholders, excluding those whose shares are held in CREST, who come on to the share register with effect from 1 January 2016 will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders <https://www.gov.uk/government/publications/exchange-of-information-account-holders>.

Glossary of Terms

Total Assets

Total assets less current liabilities, before deduction of all borrowings.

Net Asset Value

Also described as shareholders' funds. Net Asset Value (NAV) is the value of total assets less liabilities (including borrowings). The NAV per share is calculated by dividing this amount by the number of ordinary shares in issue.

Net Asset Value at Fair

Borrowings are valued at an estimate of their market worth.

Discount/Premium

As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

Ongoing Charges

The total expenses (excluding interest) incurred by the Company as a percentage of the average net asset value (with debt at fair value).

Gearing

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's

assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gearing represents its cash borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds.

Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Leverage

For the purposes of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Active Share

Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

Communicating with Shareholders



Trust Magazine

Trust Magazine

Trust is the Baillie Gifford investment trust magazine which is published three times a year. It provides an insight to our investment approach by including interviews with our fund managers, as well as containing investment trust news, investment features and articles about the trusts managed by Baillie Gifford, including Baillie Gifford Shin Nippon. *Trust* plays an important role in helping to explain our products so that readers can really understand them. For a copy of *Trust*, please contact the Baillie Gifford Client Relations Team.

An online version of *Trust* can be found at www.bgtrustonline.com.

Baillie Gifford Shin Nippon on the Web

Up-to-date information about Baillie Gifford Shin Nippon, including a monthly commentary, recent portfolio information and performance figures, can be found on the Company's page of the Managers' website at www.shinnippon.co.uk.

You can also find a brief history of Baillie Gifford Shin Nippon, an explanation of the effects of gearing and a flexible performance reporting tool.

Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcomed, so please contact the Baillie Gifford Client Relations Team and give them your suggestions. They will also be very happy to answer questions that you may have, either about Baillie Gifford Shin Nippon or the plans described on pages 54 and 55.



A Shin Nippon web page at www.shinnippon.co.uk

Literature in Alternative Formats

It is possible to provide copies of the literature in alternative formats, such as large print or on audio tape. Please contact the Baillie Gifford Client Relations Team for more information.

Client Relations Team Contact Details

You can contact the Baillie Gifford Client Relations Team by telephone, email, fax or post:

Telephone: 0800 917 2112

Your call may be recorded for training or monitoring purposes.

E-mail: trustenquiries@bailliegifford.com

Website: www.bailliegifford.com

Fax: 0131 275 3955

Client Relations Team

Baillie Gifford Savings Management Limited
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

Please note that Baillie Gifford is not permitted to give financial advice. If you would like advice or if you have any questions about the suitability of any of these plans for you, please ask an authorised intermediary.

Directors

Chairman:
MN Donaldson

PF Charig
IA McLaren
MR Somerset Webb
SCN Somerville

Alternative Investment Fund Managers, Secretaries and Registered Office

Baillie Gifford & Co Limited
Calton Square
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Edinburgh
EH1 3AN
Tel: 0131 275 2000
www.bailliegifford.com

Registrar

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Services PLC
The Pavilions
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BS99 6ZZ
Tel: 0370 889 3223

Brokers

Panmure Gordon & Co
One New Change
London
EC4M 9AF

Independent Auditor

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
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Depository

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Company Registration
No. SC093345
ISIN GB0000706274
Sedol 0070627
Ticker BGS