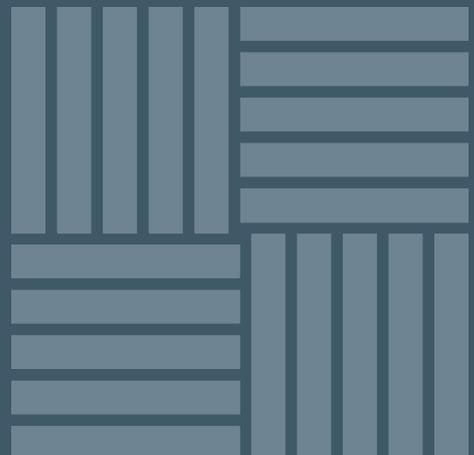
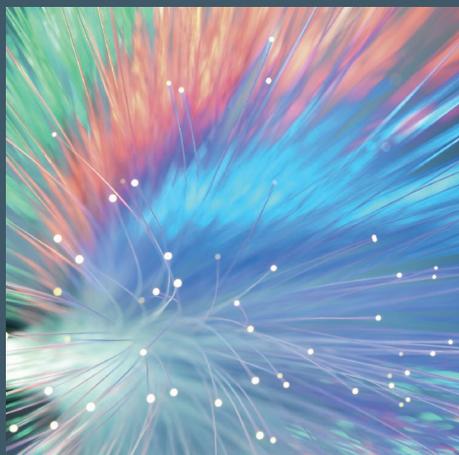
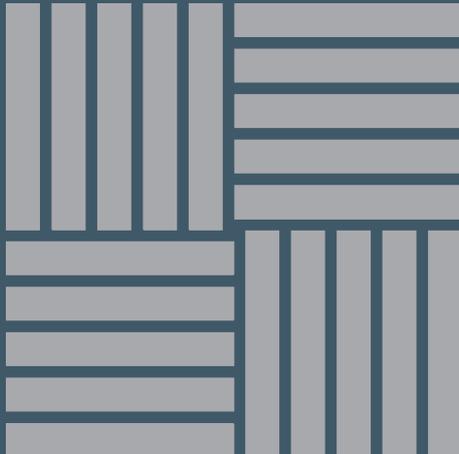
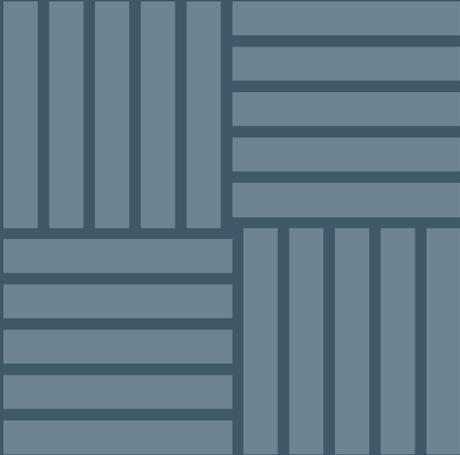


# BAILLIE GIFFORD SHIN NIPPON PLC

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Investing in new  
opportunities in Japan



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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 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 can qualify to be considered as a mainstream investment product and currently conducts its affairs, and intends to continue to conduct its affairs, so that the Company's Ordinary Shares 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 2015

**Share Price -2.1%**

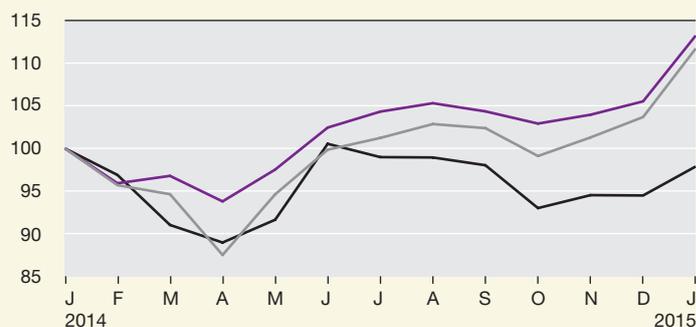
**NAV +11.7%**

**Comparative Index\* +13.2%**

### NAV, Share Price and Comparative Index

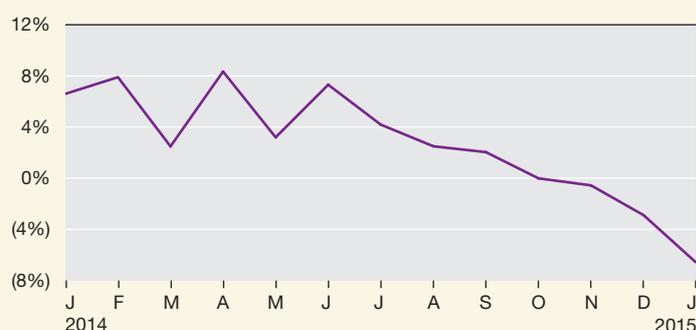
(figures rebased to 100 at 31 January 2014)

- NAV (after deducting borrowings at fair value)
- Share price
- 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 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](http://www.shinnippon.co.uk).

## Strategic Report

This Strategic Report, which includes pages 2 to 18 and incorporates the Chairman's Statement has been prepared in accordance with the Companies Act 2006.

## Chairman's Statement

### Performance

Your Board reviews performance primarily over rolling three year periods. It is pleasing that over the three years to 31 January 2015, Shin Nippon's net asset value per share rose by 95.3%, our share price rose by 91.9%, while our comparative index (MSCI Japan Small Cap index, total return in sterling terms) rose by 37.3%. This was a period of very strong absolute and relative performance.

However, in the year to 31 January 2015 we did record a period of small underperformance; our net asset value per share rose 11.7%, while the comparative index rose 13.2%. In contrast our share price was weak recording a fall of 2.1% having moved from a premium at the beginning of the year to a discount of 6.6% at the end of the financial year. Our share price had stood at a premium to net asset value for well over a year and still trades at a narrower discount than the rest of our sector. In the Managers' Report on page 8 you will find a detailed explanation of the Company's performance and some of the holdings. Your Board takes a very close interest in both of these topics. It has been gratifying that our strategy of identifying the most up-and-coming growth businesses in Japan and the Managers' stock selection have produced such strong returns in recent years.

### Share Issuance

During the year the Company issued 500,000 shares (1.4% of the Company's share capital at 31 January 2014) at an average premium to net asset value of 7.7% raising £1.6m. This resulted in a small enhancement of net asset value for existing shareholders and it is anticipated that the impact on the liquidity of the shares will be positive.

### Borrowing and Hedging

The Company's borrowings of ¥3.35 billion were unchanged during the year. Gearing was beneficial to performance and fell slightly during the year from 11% to 9%. As the Manager continues to identify interesting companies in which to invest, gearing is likely to be maintained.

The yen weakened against sterling during the year by 5%. We undertook no currency hedging in the year and have no immediate plans to do so.

### Revenue

Our revenue return per share fell from a loss of 0.69p last year to a loss of 1.01p this year.

Dividend income was again strong and grew by a very healthy 23%, but this was offset by higher management fees due to the increase in net asset value, increased administrative costs and higher finance costs due to the larger loan drawn down in November 2013 being in place for the full year.

### AGM

At this year's AGM we are seeking authority to issue new shares (and to re-issue any shares held in treasury, of which there are presently none) of up to 10% of the Company's share capital for cash on a non pre-emptive basis, but only at a premium to net asset value, thus enhancing 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.

### Governance

Last year I announced that I would be standing down from the Board at this year's AGM. After an extensive external search the Board was delighted to welcome Neil Donaldson to the Board last year and it has already benefited from his wise counsel. Assuming that shareholders approve his appointment, it is intended that Neil will become Chairman when I stand down.

I have been very privileged to be the Chairman of Shin Nippon for the last six years and rather longer as a Director. I very much hope that Neil will enjoy being Chairman and part of the Board as much as I have done, and wish him and the Company all the very best.

### Outlook

The pace of political change in Japan continues to be rather slow, but its general direction has continued to be very encouraging. In November the Prime Minister, Mr Abe, took the opportunity to call a snap election to seek a delay in the implementation of a sales tax rise and strengthen his mandate for political and economic reforms. He gained a good majority and is in a strong position to continue his growth and change agenda, thus providing a positive backdrop to the Japanese stockmarket.

The corporate sector is also in good heart, with strong balance sheets and buoyed by Japan being a major beneficiary of lower energy prices. There have also been encouraging signs that wage rises are being granted in a variety of industries, giving hope of increasing consumer demand in the future. The Board is also encouraged by improving corporate governance in Japan.

At the individual company level the Managers continue to find interesting companies in which to invest. At times, share ratings are not at bargain levels, but the portfolio benefits from companies with strong competitive advantages, with every prospect of gaining further market share. The Board and Managers remain very encouraged by the outlook.

Barry M Rose  
24 March 2015

Past performance is not a guide to future performance.

## Year's Summary

	31 January 2015	31 January 2014	% change	
Total assets (before deduction of bank loan)	£147.5m	£133.8m		
Bank loan	£18.9m	£19.8m		
Shareholders' funds	£128.6m	£114.0m		
Net asset value per ordinary share (after deducting borrowings at fair value)	343.7p	307.8p		11.7
Net asset value per ordinary share (after deducting borrowings at par value)	345.8p	310.4p		11.4
Share price	321.0p	328.0p		(2.1)
Comparative Index*				13.2
Yen/sterling exchange rate	176.42	167.61		(5.0)
(Discount)/premium (after deducting borrowings at fair value)	(6.6%)	6.6%		
(Discount)/premium (after deducting borrowings at par value)	(7.2%)	5.7%		
Revenue earnings per ordinary share	(1.01p)	(0.69p)		
Ongoing charges	1.14%	1.19%		
Active share†	94%	94%		
<b>Year to 31 January</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Year's high and low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
Net asset value per ordinary share (after deducting borrowings at fair value)	343.7p	265.5p	314.9p	206.4p
Net asset value per ordinary share (after deducting borrowings at par value)	345.8p	267.9p	317.4p	206.6p
Share price	334.8p	284.0p	340.3p	221.0p
Premium/(discount) (after deducting borrowings at fair value)	12.9%	(9.3%)	10.5%	(10.9%)
Premium/(discount) (after deducting borrowings at par value)	11.9%	(9.9%)	10.4%	(10.9%)
	<b>31 January 2015</b>	<b>31 January 2014</b>		
<b>Net return per ordinary share</b>				
Revenue return	(1.01p)	(0.69p)		
Capital return	36.35p	96.62p		
<b>Total return</b>	<b>35.34p</b>	<b>95.93p</b>		

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

† 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.

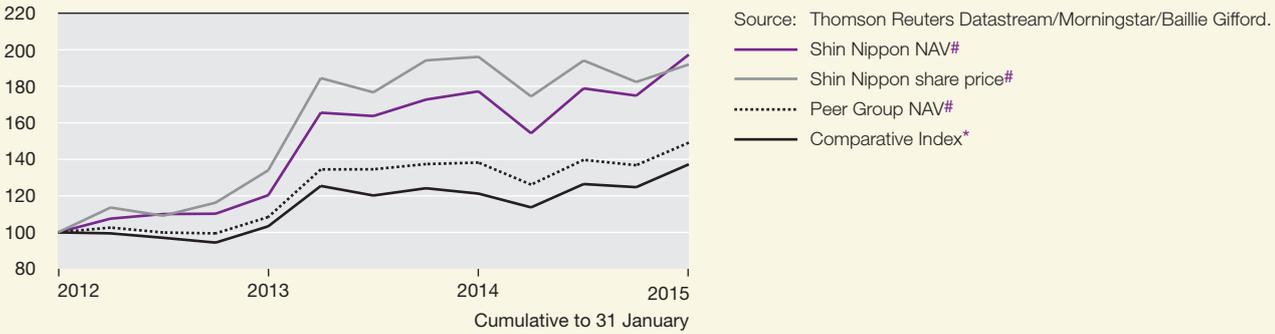
Past performance is not a guide to future performance.

## Three Year and Five Year Performance Summary

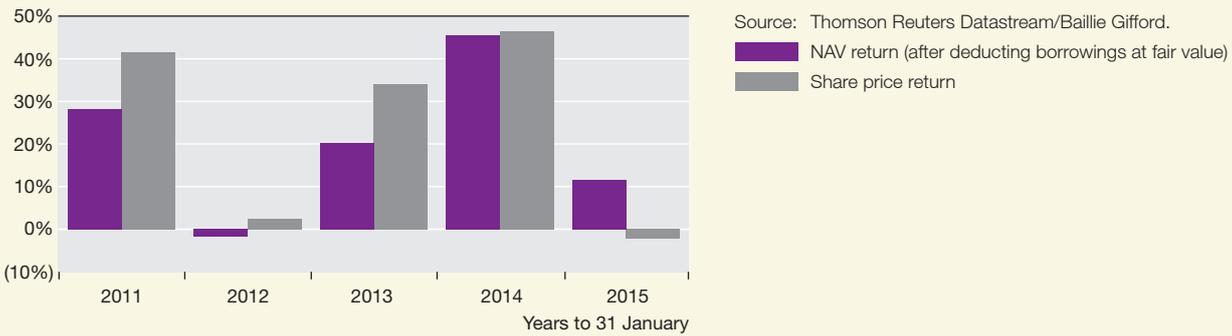
The following charts indicate how an investment in Shin Nippon has performed relative to its comparative index, peer group and its underlying net asset value over three and five year periods to 31 January 2015.

### Three Year Performance

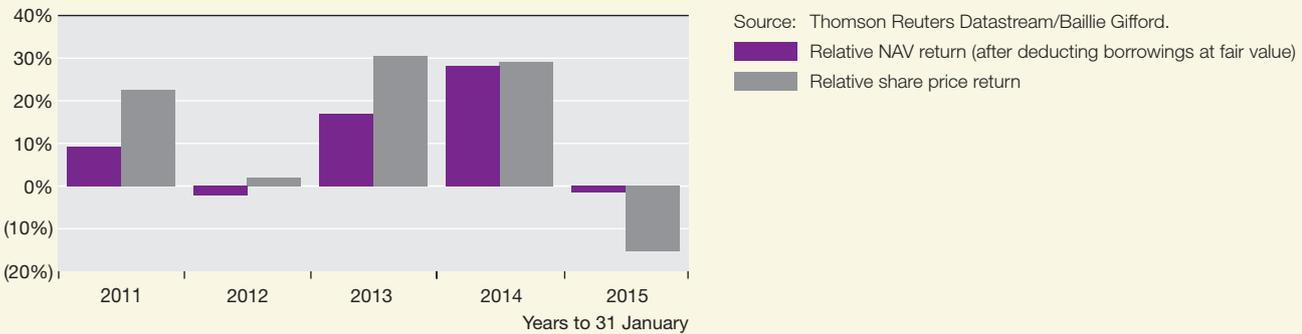
(figures rebased to 100 at 31 January 2012)



### Annual change in Net Asset Value and Share Price



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



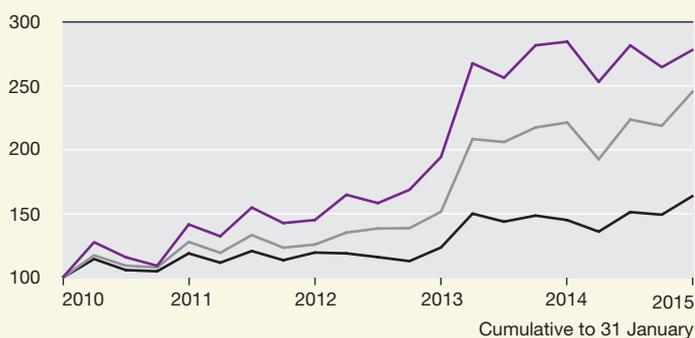
# Total return. NAV data is after deducting borrowings at par value. AIC peer group comprises: Atlantis Japan Growth, Fidelity Japanese Values, JP Morgan Japanese Smaller Companies and Prospect Japan; data is unweighted.

\* 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 2010)



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 2010)



Source: Morningstar/Baillie Gifford.

- Shin Nippon
- Peer Group†

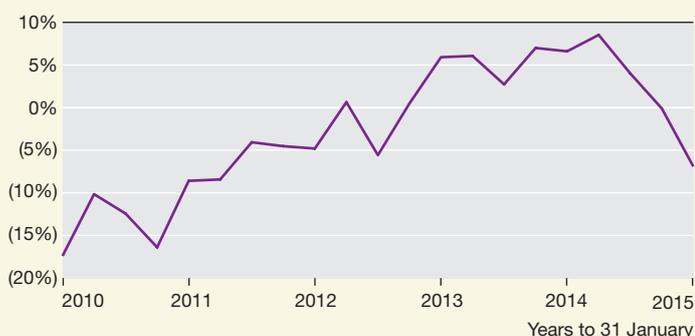
NAV total return (after deducting borrowings at par value) in sterling terms.

† 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)

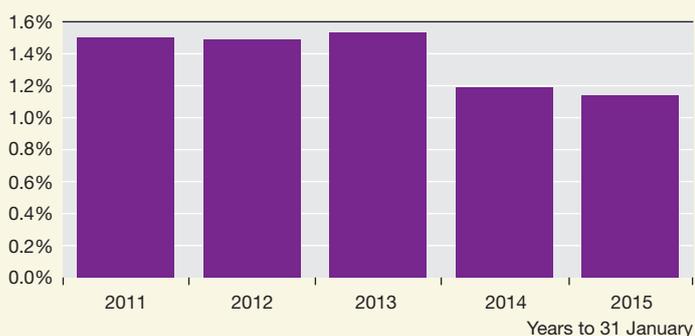


Source: Thomson Reuters Datastream/Baillie Gifford.

- 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 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 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 16 and 17 and in the Managers' Report and Review of Investments on pages 8 to 15.

### 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 18.

### Principal Risks

As explained on pages 24 and 25 there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The principal risks associated with the Company are as follows:

**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 19 to the financial statements on pages 44 to 47.

**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. 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.

**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. Baillie Gifford have 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. 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’). 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.

All borrowings require the prior approval of the Board and gearing 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.

## 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 six Directors, five male and one female. The Company has no employees. The Board’s policy on diversity is set out on page 24.

## 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 25.

## 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 8 and 9.

The Strategic Report which includes pages 2 to 18 was approved by the Board on 24 March 2015.

Barry M Rose  
Chairman

## Managers' Report

The great opportunities for the small but expanding cohort of Japan's entrepreneurs working to change business practices and offerings for the better have been noted in recent Managers' reports. A lingering concern was that the majority of these innovators were focused on the internet and digital sectors. However, there are now encouraging signs that positive entrepreneurial developments are spreading to other parts of the economy.

In the past year we have met with hungry, young business founders with big ambitions in sectors such as robotics and biotechnology. Several appear to have made globally relevant technological advances in their fields of expertise. This contrasts with some of the attractive smaller internet businesses in Japan that are capable of growing rapidly in the domestic market, but generally lack the ability to expand overseas. We view this broadening of the opportunity set as an exciting long term trend for Shin Nippon.

The biotech industry has significant growth potential for Japan Inc and has been identified by the government as a key industry to support and foster over the coming years. Japan has always enjoyed a strong reputation for its pharmaceutical research, as exemplified by Professor Yamanaka jointly winning the Nobel Prize for his stem cell research in late 2012. However, progress in commercialising the good research emanating from Japanese universities has been disappointing thus far. In an effort to address this weakness, the government has diverted significant funds towards biotech research over recent years and has overhauled the drug approval process to accelerate approval for innovative stem cell treatments. This should help give early stage Japanese biotech companies an edge over similar businesses elsewhere in the world where the approval process for novel therapeutics typically remains very conservative. We have recently purchased two new holdings in this area and more details are included below.

In general we do not believe that macro-economic factors overly influence the small businesses in which Shin Nippon invests. The quality of management teams and their business strategies typically have a much greater impact on the success or failure of a small company. This remains the case but it is worth highlighting

the increasing shortage of labour in Japan as the baby-boomers retire and as the economic environment has improved. Rising wages should be a long term driver of automation and innovative solutions that promote more flexible forms of employment. We retain exposure to several automation companies within the portfolio, both traditional industrial robotic businesses and software providers that help automate processes in non-manufacturing businesses. During the period we made an investment in a newly listed company that is the leader in the burgeoning freelance employee market.

Last year witnessed another rise in the number of IPOs in Japan and there has been a noticeable increase in the number of newly listed businesses that operate in the innovative and expanding parts of the economy. This encouraging development is expanding the range of potentially attractive investments available to Shin Nippon.

### Performance

The MSCI Japan Small Cap Index (total return in sterling terms) rose by 13.2% over the year while Shin Nippon's net asset value per share rose by 11.7% (after deducting borrowings at fair value), ending the period at an all time high. Investors in Japanese stocks have been buoyed by the re-election of Mr Abe as Prime Minister to continue his reflationary, reformist agenda, while significant progress has been made by regulators in improving corporate governance.

Several holdings that are building strong businesses overseas were among the positive contributors to performance over the year. Asics has continued to see strong sales growth of its running shoes outside Japan, particularly in developing markets. In the healthcare sector, M3 has been successfully developing additional profitable segments that take advantage of the vast online network of doctors that the company has accumulated around the world. Meanwhile, Sysmex's advanced blood testing equipment has been selling well in China. One of the earlier new purchases in the financial year, Cookpad, was another strong performer; profits from advertising on the company's popular recipe website have been advancing quickly.



Past performance is not a guide to future performance.

Performance from some of the earlier stage internet related businesses has been disappointing. Profit growth at Yume No Machi, the online takeaway ordering service, and Oisix, the organic online supermarket, has been held back by extra marketing costs incurred to build the companies' brands.

## Portfolio

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 11.8%, 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 Peptidream. Drug types traditionally can either be classified as small molecule or large biologics; there are advantages and disadvantages to both approaches. Peptidream has developed a proprietary system that should enhance the drug discovery process by combining the best of both approaches. The company is developing its own drugs with this system and has also licensed the technology to big pharmaceutical partners.

Many biotech researchers have been trying to develop a new drug delivery system that can accurately deliver anticancer drugs to cancerous cells. This goal has proved to be very difficult to achieve but new holding NanoCarrier has made some real progress. The company's nanoparticles allow the use of higher toxicity drug payloads through accurate targeting and controlled release. The coming decades offer real hope that nanoparticle based cancer drugs will make sizable therapeutic inroads into treating cancer, particularly for hard-to-treat solid tumours.

Crowdworks is a recently listed 'crowdsourcing' company. The online network earns a fee from linking freelance workers in Japan with companies looking for short term staff to work on particular projects. The company has moved quickly to establish an industry leading position both in terms of the number of freelancers on the network and the quality of large clients who regularly recruit through the website. A new holding was purchased as the industry and company are growing rapidly from a very low base.

## Outlook

Shin Nippon continues to focus on identifying the most exciting, up-and-coming growth businesses in Japan. The start-up community remains vibrant, while increased efforts to make the Japanese stockmarket a more attractive place to invest are encouraging. The recent broadening out into new sectors of the range of businesses that meet Shin Nippon's investment criteria is a welcome and healthy development for the long term.

Baillie Gifford & Co  
24 March 2015

## 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

#### Nihon M&A Center

##### 3.0% of total assets

Nihon M&A 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 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.

#### M3

##### 2.6% 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.

#### Don Quijote

##### 2.6% of total assets

Don Quijote operates a chain of large discount stores. The company's unique format provides enjoyment to customers as they search through the huge selection of discounted products, including clothes, household goods, cosmetics, packaged food and electronics. The majority of customers visit the stores in the evenings, many viewing the experience as a low cost form of entertainment similar to a treasure hunt. Don Quijote's strength lies in its efficient supply chain management system which allows it to set prices at low levels to attract customers. The company has purchased several underperforming retail chains at extremely low valuations and management is integrating them into the supply chain system to improve profitability.

#### Asics

##### 2.6% of total assets

Asics is a branded sports shoe, apparel and equipment manufacturer. The company has built a leading position in the running shoe market, in which a combination of Asics' industry leading technology and strong brand heritage has allowed the company to grow earnings accordingly. Further, unlike many international competitors, Asics' management has eschewed exorbitant sponsorship deals. By not pandering to the mainstream Asics has cultivated a loyal fan base amongst serious sportspeople who value performance over image. The company continues to grow in developed markets where running continues to increase in popularity, while growth in emerging markets is opening up a new growth avenue for Asics.

#### Asahi Intecc

##### 2.4% 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.

#### MonotaRO

##### 2.4% 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.

## Cookpad

### 2.4% of total assets

Cookpad collates recipes online, operating one of the most popular websites in Japan. Despite having more than 40 million users, initial efforts to make money from the website disappointed but a new management team appears to have rectified this. Advertising revenues have started to grow more rapidly in recent years, aided by the shift in usage habits away from PC towards mobile and tablet. Cookpad is developing some novel partnerships with branded food companies and supermarkets that could result in additional profits drivers in the future.



## Iriso Electronics

### 2.3% of total assets

Iriso Electronics is a specialist manufacturer of connectors, predominantly for electronic applications in cars. The company's competitive edge stems from their well established relationships with major customers and the quality of their 'floating connectors' which maintain performance despite vehicle vibrations. The increased use of electronic components within cars should help the company grow its earnings in the long term. As navigation systems, driver assist systems and electric power steering become more prevalent more Iriso connectors will be required.

## Infomart

### 2.1% of total assets

Infomart 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 cost 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.

## Takara Leben

### 2.1% of total assets

Takara Leben is a condominium developer that targets first time buyers in their 30s and 40s in some of the expanding suburbs of Tokyo. The company has been benefiting from a lack of competition in the areas where it focuses because the two main rivals failed during the economic downturn. Takara Leben has therefore been able to secure land for future developments at reasonable prices. Given the nascent recovery in demand for new condominiums and the relatively low costs of the plots of land, the outlook for Takara Leben's earnings is exciting.

## New Buys

### Peptidream

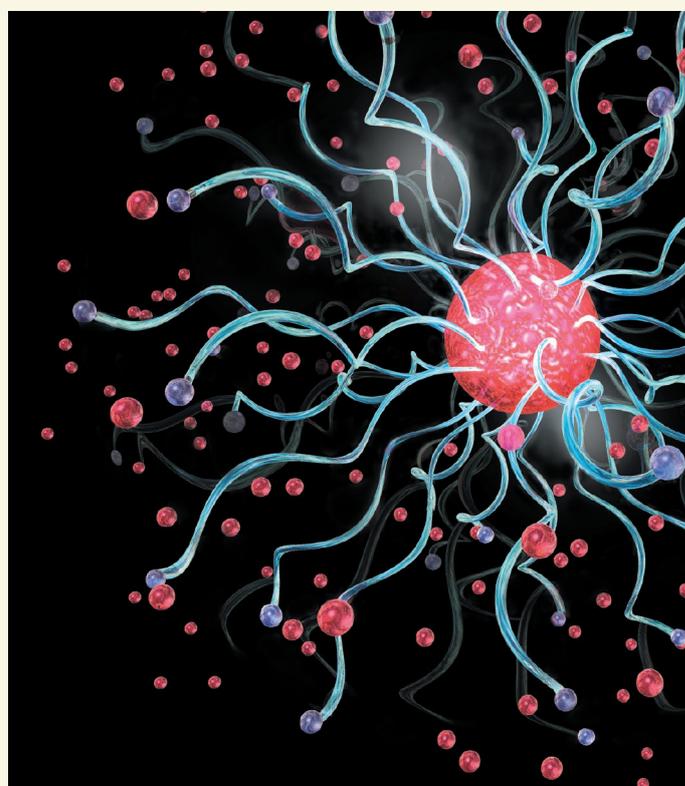
#### 0.8% of total assets

Traditionally drugs can be categorised as either small molecule or large biologics, with both having their respective advantages and disadvantages in modern day medicine. By combining chemistry from the small molecule area with advances in the screening of biologic candidates for development, Peptidream has developed a proprietary system that should significantly improve the drug discovery process. In addition to developing their own drug pipeline using this system, the company has licensed out this technology extensively to large pharmaceutical companies to maximise the revenue opportunity.

### NanoCarrier

#### 0.7% of total assets

NanoCarrier is focused on developing nanoparticles that are used to deliver drugs to cancerous cells. Success in this area would effectively allow the use of potent anticancer drugs without the toxicity and off-target effects that limit the use of conventional chemotherapy. Research progress so far has been slow with many significant challenges relating to accurate targeting, immune system evasion and controlled drug release. However, NanoCarrier has made significant progress overcoming these issues and there is now real hope that this novel drug delivery system can lead to significant progress in the treatment of cancer.



NanoCarrier's drug delivery technology offers hope of significant progress in cancer treatment.

### Crowdworks

#### 1.1% of total assets

Crowdworks is a recently listed 'crowdsourcing' network that earns a fee by linking freelance workers in Japan with companies that are looking for short term staff to work on a particular project. The industry is growing rapidly as companies look to increase the flexibility of their labour force, or to tap into the wisdom of crowds to develop new products or services. Within a short period of time Crowdworks has grown to lead the industry with more freelancers on their website than other networks. Particularly remarkable however is the high quality of client base that has been built up. Many of the largest companies in Japan and several government departments already regularly recruit through Crowdworks.

### Findex

#### 1.3% of total assets

Findex develops specialist healthcare software in Japan. The company has built a package that allows the medical record systems that are being built at hospitals across Japan to process and store all the different digital outputs from the numerous hospital systems in one simple format. The product has proved to be very popular at the big university hospitals that are at the forefront of implementing electronic record systems. Findex has recently rolled out a cheaper cloud based package for smaller hospitals and clinics that should drive earnings growth. Management believe that the package has potential applications beyond the healthcare market in industries where data aggregation is a problem.

### Zojirushi

#### 1.0% of total assets

Zojirushi is a specialist manufacturer of heat insulating containers for the food and beverage market. The company's high-end rice cookers and thermos bottles are very popular domestically and recent more aggressive moves in Asia are resulting in much stronger overseas sales. Interestingly the company is able to charge more for its products overseas so achieving higher margins. We believe that the company is still at an early stage of its transition into an international branded cooking equipment maker.

## Portfolio Performance Attribution for the Year to 31 January 2015\*

Computed relative to the comparative index†

Portfolio breakdown	Index asset allocation		Shin Nippon asset allocation		Performance#		Contribution to relative return %	Contribution attributable to:		
	31.01.14 %	31.01.15 %	31.01.14 %	31.01.15 %	Shin Nippon %	Index %		Stock selection %	Asset allocation %	Gearing %
Consumer Discretionary	18.8	17.5	26.5	30.1	8.8	10.7	(0.4)	(0.2)	(0.2)	–
Consumer Staples	8.9	9.7	5.2	5.7	46.0	27.1	0.4	0.8	(0.4)	–
Energy	0.7	0.7	1.5	0.9	(34.6)	(11.2)	(0.4)	(0.3)	(0.1)	–
Financials	18.8	20.2	8.8	5.9	17.5	16.3	(0.3)	–	(0.3)	–
Health Care	5.4	5.4	13.1	18.1	27.7	2.8	2.3	3.1	(0.8)	–
Industrials	24.7	24.5	17.4	20.3	27.6	12.7	2.4	2.4	–	–
Information Technology	11.4	10.6	24.9	18.0	(13.8)	12.9	(5.7)	(5.6)	(0.1)	–
Materials	11.1	10.9	1.0	–	–	10.3	0.8	0.6	0.2	–
Telecommunication Services	–	–	1.6	1.0	(21.7)	–	(0.4)	(0.3)	(0.1)	–
Utilities	0.2	0.5	–	–	–	10.5	–	–	–	–
<b>Total (excluding gearing)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>11.3</b>	<b>13.2</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>(1.6)</b>	<b>–</b>
Impact of gearing					1.0		1.0			1.0
<b>Total (including gearing)‡</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>12.4</b>	<b>13.2</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(1.6)</b>	<b>1.0</b>

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 12.4% against an index return of 13.2% translates into a relative return of (0.7%), divide the portfolio return of 11.4 by the index return of 113.2, subtract one and multiply by 100.

\* The performance attribution table is based on total assets.

† The comparative index for the year to 31 January 2015 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.

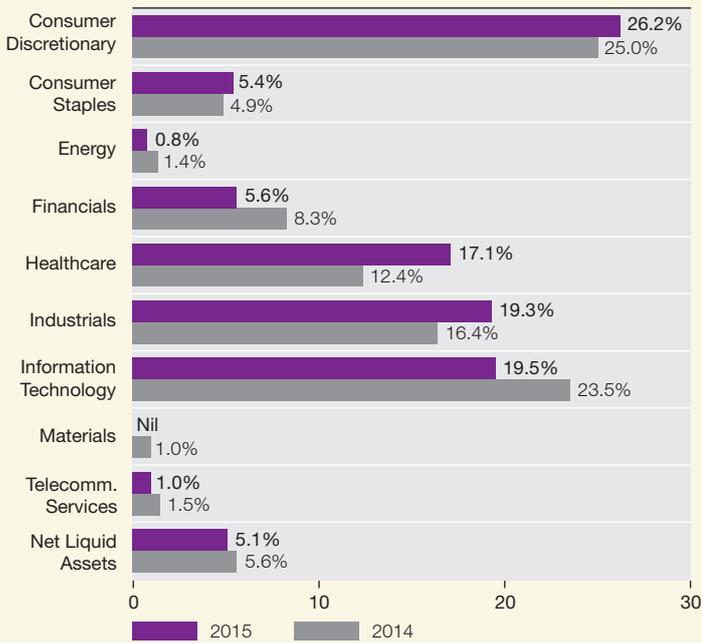
‡ The total return performance of 12.4% excludes expenses and therefore differs from the NAV return (after deducting borrowings at par value) of 11.4% as a result.

## Investment Changes

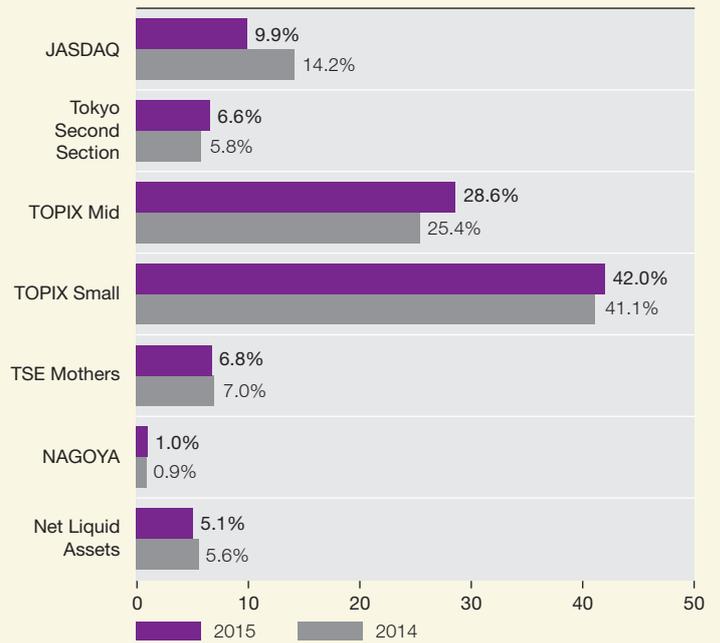
	Valuation at 31 January 2014 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 January 2015 £'000
<b>Equities:</b>				
Consumer Discretionary	33,445	4,061	1,159	38,665
Consumer Staples	6,583	(1,334)	2,774	8,023
Energy	1,886	–	(668)	1,218
Financials	11,058	(3,824)	1,008	8,242
Health Care	16,594	4,169	4,536	25,299
Industrials	21,955	601	5,868	28,424
Information Technology	31,495	(492)	(2,288)	28,715
Materials	1,308	(2,103)	795	–
Telecommunications	2,057	(259)	(378)	1,420
<b>Total investments</b>	<b>126,381</b>	<b>819</b>	<b>12,806</b>	<b>140,006</b>
Net liquid assets	7,447	627	(551)	7,523
<b>Total assets</b>	<b>133,828</b>	<b>1,446</b>	<b>12,255</b>	<b>147,529</b>
Bank Loan	(19,867)	(18)	991	(18,894)
<b>Shareholders' Funds</b>	<b>113,961</b>	<b>1,428</b>	<b>13,246</b>	<b>128,635</b>

## Distribution of Total Assets

### Industry

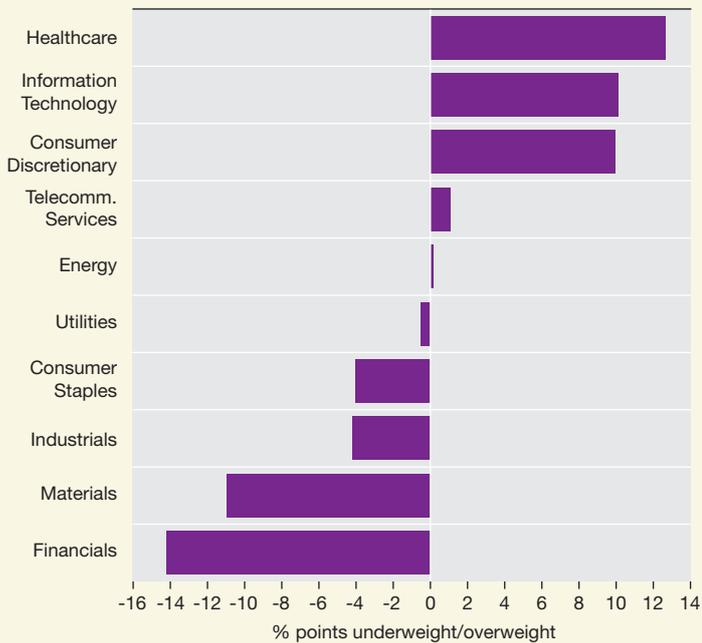


### Listings



## Portfolio Weightings

Relative to comparative index



## Twenty Largest Equity Holdings

Name	Business	2015 Value £'000	2015 % of total assets	2014 Value £'000
Nihon M&A Center	M&A advisory services	4,424	3.0	3,233
M3	Online medical database	3,855	2.6	2,812
Don Quijote	Discount store chain	3,836	2.6	2,969
Asics	Sports shoes and clothing	3,829	2.6	2,475
Asahi Intecc	Specialist medical equipment	3,595	2.4	2,783
MonotaRO	Online business supplies	3,575	2.4	3,413
Cookpad	Recipe website	3,523	2.4	–
Iriso Electronics	Specialist auto connectors	3,323	2.3	2,921
Infomart	Internet platform for restaurant supplies	3,064	2.1	2,059
Takara Leben	Residential property developer	3,045	2.1	1,721
Nakanishi	Dental equipment	2,945	2.0	2,194
Nabtesco	Robotic components	2,901	2.0	2,277
Nifco	Industrial fastener manufacturer	2,865	1.9	1,991
Cyberagent	Internet advertising and content	2,823	1.9	2,846
H.I.S.	Discount travel agency and theme parks	2,708	1.8	1,965
Pigeon	Baby care products	2,664	1.8	1,997
Harmonic Drive	Robotic components	2,620	1.8	1,026
Start Today	Internet fashion retailer	2,611	1.8	2,626
Japan Exchange Group	Stock exchange operator	2,458	1.7	2,355
Systemex	Medical testing equipment	2,439	1.6	1,378
		<b>63,103</b>	<b>42.8</b>	<b>45,041</b>

## List of Investments at 31 January 2015

Name	Where listed	Business	Value £'000	% of total assets
<b>Consumer Discretionary</b>				
Ahresty	TOPIX Small	Lightweight auto components	530	0.4
Asics	TOPIX Mid	Sports shoes and clothing	3,829	2.6
Cyberagent	TOPIX Mid	Internet advertising and content	2,823	1.9
Daikyonishikawa	TOPIX Small	Automobile part manufacturer	1,592	1.1
Don Quijote	TOPIX Mid	Discount store chain	3,836	2.6
First Juken	TOPIX Small	Residential property developer	1,641	1.1
H.I.S.	TOPIX Small	Discount travel agency and theme parks	2,708	1.8
Iida Group	TOPIX Small	Residential property developer	1,347	0.9
JP Holdings	TOPIX Small	Operates child-care facilities	1,414	1.0
Kenko.com	TSE Mothers	Online pharmacy	749	0.5
Next	TOPIX Small	Provides online property information	2,418	1.6
Nifco	TOPIX Mid	Industrial fastener manufacturer	2,865	1.9
Nippon Seiki	TOKYO 2nd	Manufactures instrument panels for automobiles	1,713	1.2
Oisix	TSE Mothers	Organic food website	673	0.5
Shoei	TOKYO 2nd	Manufactures motor cycle helmets	1,881	1.3
Start Today	TOPIX Mid	Internet fashion retailer	2,611	1.8
Tomy	TOPIX Small	Toy manufacturer	1,931	1.3
Unipres	TOPIX Mid	Manufacturer of automotive components	1,404	0.9
Yume No Machi	JASDAQ	Online meal delivery service	1,179	0.8
Zojirushi	TOKYO 2nd	Kitchen appliance manufacturer	1,521	1.0
			<b>38,665</b>	<b>26.2</b>
<b>Consumer Staples</b>				
Calbee	TOPIX Mid	Branded snack foods	1,919	1.3
Cocokara Fine	TOPIX Small	Drugstore chain	1,523	1.0
Cosmos Pharmaceuticals	TOPIX Mid	Drugstore chain	1,917	1.3
Pigeon	TOPIX Mid	Baby care products	2,664	1.8
			<b>8,023</b>	<b>5.4</b>
<b>Energy</b>				
Modec	TOPIX Small	Designs and leases offshore oil production facilities	1,218	0.8
			<b>1,218</b>	<b>0.8</b>
<b>Financials</b>				
Dream Incubator	TOPIX Small	Early stage business support	969	0.6
Japan Exchange Group	TOPIX Mid	Stock exchange operator	2,458	1.7
Japan Securities Finance	TOPIX Small	Provides loans and security lending services	1,272	0.9
Sawada Holdings	JASDAQ	Securities brokerage	498	0.3
Takara Leben	TOPIX Small	Residential property developer	3,045	2.1
			<b>8,242</b>	<b>5.6</b>
<b>Healthcare</b>				
Asahi Intecc	TOKYO 2nd	Specialist medical equipment	3,595	2.4
Cyberdyne	TSE Mothers	Medical exo-skeletons	316	0.2
EPS	TOPIX Small	Clinical testing services	2,176	1.5
Findex	TOPIX Small	Healthcare software developer	1,901	1.3
Jeol	TOPIX Small	Manufacturer of scientific equipment	2,401	1.6
M3	TOPIX Mid	Online medical database	3,855	2.6
Message	JASDAQ	Nursing services for elderly	2,080	1.4
Nakanishi	JASDAQ	Dental equipment	2,945	2.0
NanoCarrier	TSE Mothers	Biotech company	1,039	0.7
Nikkiso	TOPIX Small	Industrial pumps and medical equipment	1,425	1.0
Peptidream	TSE Mothers	Biotech company	1,127	0.8
Sysmex	TOPIX Mid	Medical testing equipment	2,439	1.6
			<b>25,299</b>	<b>17.1</b>

Name	Where listed	Business	Value £'000	% of total assets
<b>Industrials</b>				
Aeon Delight	TOPIX Small	Shopping mall maintenance	1,654	1.1
Fuji Machine Manufacturing	NAGOYA	Semiconductor manufacturing equipment	1,417	1.0
Hamakyorex	TOPIX Small	Third party logistics	2,319	1.6
Harmonic Drive	JASDAQ	Robotic components	2,620	1.8
Hoshizaki Electric	TOPIX Mid	Commercial kitchen equipment	2,276	1.5
MonotaRO	TOPIX Small	Online business supplies	3,575	2.4
Nabtesco	TOPIX Mid	Robotic components	2,901	2.0
Nihon M&A Center	TOPIX Small	M&A advisory services	4,424	3.0
OSG	TOPIX Mid	Manufactures machine tool equipment	2,010	1.4
Sho-Bond	TOPIX Small	Earthquake resistant materials	1,550	1.0
Toshiba Plant Systems and Services	TOPIX Small	Plant engineering company	1,740	1.2
WDB Holdings	TOPIX Small	Human resource services	876	0.6
Zuiko	TOKYO 2nd	Diaper manufacturing equipment	1,062	0.7
			<b>28,424</b>	<b>19.3</b>
<b>Information Technology</b>				
ASAHI Net	TOPIX Small	Internet service provider	384	0.2
Brainpad	TOPIX Small	Business data analysis	1,055	0.7
Capcom	TOPIX Mid	Software developer	1,271	0.9
Cookpad	TOPIX Small	Recipe website	3,523	2.4
Crowdworks	TSE Mothers	Crowd sourcing services	1,600	1.1
Digital Garage	JASDAQ	Internet business incubator	1,960	1.3
Enplas	TOPIX Small	Plastic components for electronics industry	1,073	0.7
F@N Communications	TOPIX Small	Internet advertising services	2,039	1.4
GMO Payment Gateway	TOPIX Small	Online payment processing	1,936	1.3
Horiba	TOPIX Mid	Manufacturer of measuring instruments	1,190	0.8
Infomart	TSE Mothers	Internet platform for restaurant supplies	3,064	2.1
Iriso Electronics	JASDAQ	Specialist auto connectors	3,323	2.3
Istyle	TOPIX Small	Cosmetics website	744	0.5
Maruwa	TOPIX Small	Ceramic and electronic parts manufacturer	1,705	1.2
Optex	TOPIX Small	Infrared detection devices	1,298	0.9
Poletowin Pitcrew	TOPIX Small	Game testing and internet monitoring	905	0.6
SIIX Corp	TOPIX Small	Out-sourced overseas production	1,508	1.0
SMS	TOPIX Small	Online nurse recruitment	137	0.1
			<b>28,715</b>	<b>19.5</b>
<b>Telecommunication Services</b>				
Wirelessgate	TSE Mothers	Wireless communication services	1,420	1.0
			<b>1,420</b>	<b>1.0</b>
<b>Total investments</b>			<b>140,006</b>	<b>94.9</b>
<b>Net liquid assets</b>			<b>7,523</b>	<b>5.1</b>
<b>Total assets</b>			<b>147,529</b>	<b>100.0</b>
<b>Bank loan</b>			<b>(18,894)</b>	<b>(12.8)</b>
<b>Shareholders' funds</b>			<b>128,635</b>	<b>87.2</b>

## 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 # %
2005	68,586	14,350	54,236	177.2	165.8	(6.4)
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
<b>2015</b>	<b>147,529</b>	<b>18,894</b>	<b>128,635</b>	<b>345.8</b>	<b>321.0</b>	<b>(7.2)</b>

\* 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 ‡ %
2005	598	(392)	(1.28)	1.48
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
<b>2015</b>	<b>1,554</b>	<b>(374)</b>	<b>(1.01)</b>	<b>1.14</b>

### Gearing Ratios

Gearing ¶ %	Potential gearing § %
9	26
9	16
18	19
17	25
18	28
17	18
13	16
14	17
10	11
11	17
<b>9</b>	<b>15</b>

‡ 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 2005 as 100)

At 31 January	Net asset value per share ^	Share price	Comparative index **
2005	100	100	100
2006	161	183	145
2007	120	124	106
2008	82	78	86
2009	69	58	99
2010	79	70	98
2011	101	98	116
2012	99	101	117
2013	119	135	121
2014	175	198	142
<b>2015</b>	<b>195</b>	<b>194</b>	<b>160</b>

#### Compound annual returns

5 year	19.8%	22.7%	10.4%
10 year	6.9%	6.8%	4.8%

All warrants issued on the original subscription date were exercised by 9 May 1996. The warrants issued on 27 July 1994 were exercised/lapsed by 30 April 2005.

^ 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

#### Barry M Rose

Barry M Rose was appointed a Director in 1998 and became Chairman in 2009. He has wide experience of investing in international markets, including Japan. He was formerly a director of Scottish Provident Institution and was chief executive of Scottish Provident UK. He is currently a non-executive director of Aberdeen Smaller Companies High Income Trust plc and Dimensional Imaging Limited and is Chairman of the Scottish charity, Circle.

#### 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 Chairman & CEO of sports information company, BetWiz Sports and Chairman of instant messaging company IMOK Media.

#### M Neil Donaldson

Neil Donaldson was appointed a Director on 1 August 2014. Mr Donaldson has been chief executive of James Donaldson & Sons Limited, an independent Fife based timber merchants, since 1985. 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 a number of appointments with several charities

#### 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 and non-executive director of Afren 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 a number of other companies.

#### 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, is a director of Montanaro European Smaller Companies Trust plc and a trustee of the Daiwa Anglo Japanese Foundation.

#### 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 Head of Japan Strategy.

The Directors listed above were in office during the year to 31 January 2015 and remained in office as at 24 March 2015.

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 £126 billion at 23 March 2015. 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 840.

The manager of Shin Nippon is John MacDougall, a member of the Global Discovery Team. He joined Baillie Gifford & Co in 2000, has specialised in Japanese equities since 2001 and is the investment manager with responsibility for Japanese smaller companies investments.

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 2015.

### Corporate Governance

The Corporate Governance Report is set out on pages 23 to 25 and forms part of this Report.

### Manager and Company Secretaries

In order to comply with the Alternative Investment Fund Managers Directive ('AIFMD'), the Company has appointed Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, as its Alternative Investment Fund Manager ('AIFM') with effect from 1 July 2014. Baillie Gifford & Co Limited was also appointed Company Secretaries with effect from the same date. The investment management agreement with Baillie Gifford & Co has been terminated and the Company has entered into a new agreement with Baillie Gifford & Co Limited. The management fee and notice period are unchanged under these new arrangements. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co; therefore the Company's portfolio continues to be managed by Baillie Gifford & Co.

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 2014, 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.

### Depositary

In accordance with the AIFMD, the Company appointed BNY Mellon & Trust Depositary (UK) Limited as its Depositary with effect from 1 July 2014.

The Depositary Agreement replaced the custody agreements with Mizuho Corporate Bank Ltd and the Bank of New York Mellon SA/NV. 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 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 19.

Mr MN Donaldson, having been appointed to the Board on 1 August 2014, is required to seek election by shareholders at the Annual General Meeting. The Directors believe that Mr Donaldson's business expertise and knowledge of the investment trust sector will maintain the Board's depth and breadth.

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.

Mr IA McLaren and Mrs MR Somerset Webb, having served for three years since re-election/election to the Board will retire and offer themselves for re-election at the Annual General Meeting.

Following formal performance evaluation, the performance of Mr PF Charig, Mr IA McLaren and Mrs MR Somerset Webb continue to be effective and each remains committed to the Company. Their contribution to the Board is greatly valued and the Board recommends their re-election to shareholders.

Mr BM Rose will retire at the Annual General Meeting and will not offer himself for re-election.

### 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 37,175,497 ordinary shares of 10p each at 31 January 2015 (2014 – 36,675,497 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 49.

## Major Interests in the Company's Shares

Name	No of ordinary 10p shares held at 31 January 2015	% of issue
South Yorkshire Pensions Authority	2,065,000	5.6
MAM Funds PLC (indirect)	1,990,000	5.4

There have been no changes to the major interests in the Company's shares intimated up to 23 March 2015.

## 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 £1,229,183.20, 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 £921,887.40. These authorities are due to expire at the Annual General Meeting on 21 May 2015.

Resolution 9 in the Notice of Annual General Meeting seeks a general authority for the Directors to issue shares up to an aggregate nominal amount of £1,239,183.20. This amount represents 33.33% of the Company's total ordinary share capital in issue at 24 March 2015 and meets institutional guidelines. No issue of ordinary shares will be made pursuant to the

authorisation in Resolution 9 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Resolution 10, 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 £371,754.90 (representing 10% of the issued ordinary share capital of the Company as at 24 March 2015). The authorities sought in Resolutions 9 and 10 will continue until the conclusion of the Annual General Meeting to be held in 2016 or on the expiry of 15 months from the passing of the resolutions, if earlier.

The Company published a prospectus on 21 May 2014 to allow the issuance of ordinary shares to exceed 10% of the Company's issued share capital on a rolling twelve month basis (up to a maximum of 12,291,832 ordinary shares).

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 the Company issued 500,000 shares on a non-pre-emptive basis at a premium to net asset value.

No shares were held in treasury as at 23 March 2015.

### Market Purchases of Own Shares

At the last Annual General Meeting, the Company was granted authority to purchase up to 5,527,637 ordinary shares (equivalent to 14.99% of its issued share capital), such authority to expire at the 2015 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 5,572,607 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 2016.

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 Treasury Shares Regulations); 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 11 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 auditors are unaware and the Directors have taken all the steps that they might reasonably be expected to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent Auditors

The auditors PricewaterhouseCoopers LLP are willing to continue in office and in accordance with section 489 and section 491(1) of the Companies Act 2006, resolutions concerning their 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 2015.

### 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  
Barry M Rose  
Chairman  
24 March 2015

## Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2012 UK Corporate Governance Code, (the 'Code') which can be found at [www.frc.org.uk](http://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](http://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 appointment of Mr MN Donaldson on 1 August 2014, the Board comprises six 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 have 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 19.

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 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. 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". 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 5 February 2015, 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 19 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
<b>Number of meetings</b>	<b>4</b>	<b>2</b>	<b>1</b>
BM Rose	4	2	1
PF Charig	4	2	1
MN Donaldson (appointed 1 August 2014)	2	1	–
IA McLaren	4	2	1
MR Somerset Webb	4	2	1
SCN Somerville	4	2	1

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.

Trust Associates were engaged during the year to identify candidates to fill the vacancy arising on the retirement of Mr BM Rose on 21 May 2015. Trust Associates has no other connection with the Company or Directors.

The Committee identified the skills and experience that would be required, having due regard for the benefits of diversity on the Board, and candidates were interviewed from a shortlist of names provided by Trust Associates. Mr MN Donaldson was identified as the preferred candidate due to his business expertise and knowledge of the investment trust sectors. He was appointed to the Board with effect from 1 August 2014.

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

[www.shinnippon.co.uk](http://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 5 February 2015. The Chairman and each Director completed a performance evaluation questionnaire. The Chairman met individually with each Director 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 28 and 29.

### Audit Committee

The report of the Audit Committee is set out on pages 26 and 27.

### 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 'Internal Control: Revised Guidance for Directors on the Combined Code'.

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, with effect from 1 July 2014, 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.

With effect from 1 July 2014, the Company entered into arrangements to comply with the Alternative Fund Managers Directive. The Company appointed BNY Mellon Trust & Depository (UK) Limited as its Depository 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 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 54), 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 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 19 to the financial statements. The Company's assets, the majority of which are 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 financial statements have been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.

### 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 address on the back cover.

The Company's Annual General Meeting provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the meeting and is published at [www.shinnippon.co.uk](http://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](http://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](http://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  
Barry M Rose  
Chairman  
24 March 2015

## 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](http://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 half-yearly 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 Auditors;
- Whether the audit services contract should be put out to tender;
- The policy on the engagement of the external Auditors to supply non-audit services;
- The independence, objectivity and effectiveness of the external Auditors;
- 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 94.9% 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 2015 were agreed to external price sources and the portfolio holdings agreed to confirmations from the Company's custodian.

The Managers and Auditors 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 24 and 25. No significant weaknesses were identified in the year under review.

### External Auditors

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

- The audit plan for the current year;
- A report from the Auditors describing their arrangements to manage auditor independence and received confirmation of their independence; and
- The extent of non-audit services provided by the external Auditors. There were no non-audit fees for the year to 31 January 2015.

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

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

PricewaterhouseCoopers LLP have been engaged as Auditors for thirty 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 three 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 Auditors remain independent and effective and as such, has not considered it necessary to conduct a tender process for the appointment of its Auditors at this stage.

The Committee is aware that the EU regulations in relation to the statutory audits of EU listed companies will require the Company to change its audit firm by 2020.

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

### **Accountability and Audit**

The respective responsibilities of the Directors and the Auditors in connection with the financial statements are set out on pages 30 to 33.

By order of the Board  
Iain A McLaren  
Chairman of the Audit Committee  
24 March 2015

## 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 the Directors' fees would be increased from £20,000 per annum to £21,000 per annum, with effect from 1 February 2014 and that there would be no increase to the Chairman's fee or the additional fee payable to the Chairman of the Audit Committee. Directors' fees were last increased on 1 February 2011; fees payable by comparable trusts have since increased as has the Directors' time commitment due to increased regulatory complexity. 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.

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. 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.

The basic and additional fees payable to Directors in respect of the year ended 31 January 2015 and the fees payable in respect of the year ending 31 January 2016 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 2016 £	Fees as at 31 Jan 2015 £
Chairman's fee	28,500	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 33.

### 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	2015 Fees £	2015 Taxable benefits* £	2015 Total £	2014 Fees £	2014 Taxable benefits* £	2014 Total £
BM Rose	28,500	181	<b>28,681</b>	26,750	–	<b>26,750</b>
PF Charig	21,000	2,301	<b>23,301</b>	20,000	2,375	<b>22,375</b>
MN Donaldson (appointed 1 August 2014)	10,500	50	<b>10,550</b>	–	–	–
IA McLaren	23,500	–	<b>23,500</b>	22,500	–	<b>22,500</b>
MR Somerset Webb	21,000	–	<b>21,000</b>	20,000	–	<b>20,000</b>
SCN Somerville	21,000	1,728	<b>22,728</b>	20,000	2,255	<b>22,255</b>
	<b>125,500</b>	<b>4,260</b>	<b>129,760</b>	<b>109,250</b>	<b>4,630</b>	<b>113,880</b>

\* 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 National Insurance contributions.

### Sums Paid to Third Parties

The following Directors' fees were paid to third parties:

- SCN Somerville (£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 2015	Ordinary 10p shares held at 31 Jan 2014
BM Rose	Beneficial	51,882	51,882
PF Charig	—	—	—
MN Donaldson	Beneficial	946	—
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. There have been no changes intimated in the Directors' interests up to 23 March 2015.

### Statement of Voting at Annual General Meeting

At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Policy, 99.6% were in favour, 0.2% were against and votes withheld were 0.2% and in respect of the Directors' Remuneration Report, 99.7% were in favour, 0.1% 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

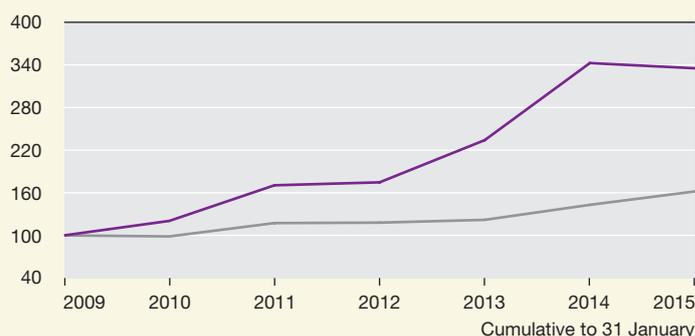
Name	Date of appointment	Due date for re-election/election
BM Rose	28 August 1998	Retiring AGM in 2015
PF Charig	25 February 2005	AGM in 2015
MN Donaldson	1 August 2014	AGM in 2015
IA McLaren	16 January 2009	AGM in 2015
MR Somerset Webb	4 October 2011	AGM in 2015
SCN Somerville	17 June 2010	AGM in 2017

### 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 28 and 29 was approved by the Board of Directors and signed on its behalf on 24 March 2015.

Barry M Rose  
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 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  
Barry M Rose  
Chairman  
24 March 2015

### 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 Auditors' 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 2015 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

Baillie Gifford Shin Nippon PLC's financial statements comprise:

- the Balance Sheet as at 31 January 2015;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' Funds 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).

#### Our audit approach

##### Overview

##### Materiality

- Overall materiality: £1.3 million which represents approximately 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

- Valuation and existence of investments.
- Income from 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
<b>Valuation and existence of investments</b> <i>Refer to page 26 (Audit Committee Report), page 38 (Accounting policies) and page 41 (Notes to the Financial Statements).            The investment portfolio at the year-end of £140.0 million comprised of listed equity investments.            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>	We tested the valuation of the listed equity investments to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from The Bank of New York Mellon SA/NV. No differences were identified.

Area of focus	How our audit addressed the area of focus
<p><b>Income from investments</b></p> <p><i>Refer to page 26 (Audit Committee Report), page 38 (Accounting policies) and page 39 (Notes to the Financial Statements).</i></p> <p><i>We focused on 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"). This is because incomplete or inaccurate income could have a material impact on the Company's net asset value.</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>We understood and assessed the design and implementation of key controls surrounding income recognition.</p> <p>In addition we tested dividend receipts by agreeing the dividend rates of investments to independent third party sources.</p> <p>No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>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.</p> <p>Our testing did not identify any unrecorded dividends.</p> <p>We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. We then tested the validity of a sample of special dividends to independent third party sources.</p> <p>We did not find any special dividends that were not treated in accordance with the AIC SORP.</p>

**How we tailored the audit scope**

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.

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 involved obtaining and reading the relevant control reports, 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.

**Materiality**

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 and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

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

<b>Overall materiality</b>	£1.3 million (2014: £1.14 million).
<b>How we determined it</b>	1% of net assets.
<b>Rationale for benchmark applied</b>	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 £65,000 (2014: £57,000) 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 25, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Company's financial statements using the going concern basis of accounting. 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 opinion**

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.

### 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 arising from this responsibility.</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 30, 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 performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	<i>We have no exceptions to report arising from this responsibility.</i>
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the section of the Annual Report on pages 26 and 27, 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.	<i>We have no exceptions to report arising from this responsibility.</i>
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### 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 Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance 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 30, 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 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 through understanding the control environment at the Manager, and 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 2015

## Income Statement

For the year ended 31 January

	Notes	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Gains on investments*	8	–	12,806	<b>12,806</b>	–	32,841	<b>32,841</b>
Currency gain†	13	–	658	<b>658</b>	–	858	<b>858</b>
Income	2	1,554	–	<b>1,554</b>	1,259	–	<b>1,259</b>
Investment management fee	3	(897)	–	<b>(897)</b>	(869)	–	<b>(869)</b>
Other administrative expenses	4	(381)	–	<b>(381)</b>	(301)	–	<b>(301)</b>
<b>Net return before finance costs and taxation</b>		276	13,464	<b>13,740</b>	89	33,699	<b>33,788</b>
Finance costs of borrowings	5	(495)	–	<b>(495)</b>	(231)	(15)	<b>(246)</b>
<b>Net return on ordinary activities before taxation</b>		(219)	13,464	<b>13,245</b>	(142)	33,684	<b>33,542</b>
Tax on ordinary activities	6	(155)	–	<b>(155)</b>	(97)	–	<b>(97)</b>
<b>Net return on ordinary activities after taxation</b>		<b>(374)</b>	<b>13,464</b>	<b>13,090</b>	<b>(239)</b>	<b>33,684</b>	<b>33,445</b>
<b>Net return per ordinary share</b>	7	<b>(1.01p)</b>	<b>36.35p</b>	<b>35.34p</b>	<b>(0.69p)</b>	<b>96.62p</b>	<b>95.93p</b>

\* 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.

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

The accompanying notes on pages 38 to 47 are an integral part of the financial statements.

## Balance Sheet

### As at 31 January

	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
<b>Fixed assets</b>					
Investments	8		140,006		126,381
<b>Current assets</b>					
Debtors	9	757		202	
Cash and short term deposits	19	8,181		7,606	
			8,938		7,808
<b>Creditors</b>					
Amounts falling due within one year	10	(1,415)		(361)	
<b>Net current assets</b>					
			7,523		7,447
<b>Total assets less current liabilities</b>					
			147,529		133,828
<b>Creditors</b>					
Amounts falling due after more than one year	11		(18,894)		(19,867)
<b>Net assets</b>					
			<b>128,635</b>		<b>113,961</b>
<b>Capital and reserves</b>					
Called up share capital	12		3,718		3,668
Share premium account	13		23,317		21,783
Capital redemption reserve	13		21,521		21,521
Capital reserve	13		85,146		71,682
Revenue reserve	13		(5,067)		(4,693)
<b>Shareholders' funds</b>					
			<b>128,635</b>		<b>113,961</b>
<b>Net asset value per ordinary share</b>					
(after deducting borrowings at book value)	14		<b>346.0p</b>		<b>310.7p</b>
<b>Net asset value per ordinary share</b>					
(after deducting borrowings at fair value)	14		<b>343.7p</b>		<b>307.8p</b>
<b>Net asset value per ordinary share</b>					
(after deducting borrowings at par value)	14		<b>345.8p</b>		<b>310.4p</b>

The Financial Statements of Baillie Gifford Shin Nippon PLC (Company Registration Number SC093345) on pages 34 to 47 were approved and authorised for issue by the Board and were signed on 24 March 2015.

Barry M Rose  
Chairman

The accompanying notes on pages 38 to 47 are an integral part of the financial statements.

## Reconciliation of Movements in Shareholders' Funds

### For the year ended 31 January 2015

	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 2014		3,668	21,783	21,521	71,682	(4,693)	<b>113,961</b>
Ordinary shares issued	13	50	1,534	–	–	–	<b>1,584</b>
Net return on ordinary activities after taxation	13	–	–	–	13,464	(374)	<b>13,090</b>
<b>Shareholders' funds at 31 January 2015</b>		<b>3,718</b>	<b>23,317</b>	<b>21,521</b>	<b>85,146</b>	<b>(5,067)</b>	<b>128,635</b>

### For the year ended 31 January 2014

		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 2013		3,266	10,795	21,521	37,998	(4,454)	<b>69,126</b>
Ordinary shares issued		402	10,988	–	–	–	<b>11,390</b>
Net return on ordinary activities after taxation		–	–	–	33,684	(239)	<b>33,445</b>
<b>Shareholders' funds at 31 January 2014</b>		<b>3,668</b>	<b>21,783</b>	<b>21,521</b>	<b>71,682</b>	<b>(4,693)</b>	<b>113,961</b>

The accompanying notes on pages 38 to 47 are an integral part of the financial statements.

## Cash Flow Statement

For the year ended 31 January

	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
<b>Net cash inflow from operating activities</b>	15		252		94
<b>Servicing of finance</b>					
Interest paid		(480)		(180)	
Breakage costs paid		–		(15)	
<b>Net cash outflow from servicing of finance</b>			(480)		(195)
<b>Taxation</b>					
Overseas tax paid		(148)		(89)	
<b>Total tax paid</b>			(148)		(89)
<b>Financial investment</b>					
Purchases of investments		(15,482)		(33,513)	
Sales of investments		15,182		14,767	
Exchange differences on settlement of investment transactions		218		(188)	
<b>Net cash outflow from financial investment</b>			(82)		(18,934)
<b>Financing</b>					
Ordinary shares issued		1,584		11,390	
Bank loan repaid		–		(6,882)	
Bank loan drawn down		–		19,926	
<b>Net cash inflow from financing</b>			1,584		24,434
<b>Increase in cash</b>	16		<b>1,126</b>		<b>5,310</b>

## Reconciliation of Net Cash Flow to Movement in Net Debt

For the year ended 31 January

	Notes	2015 £'000	2014 £'000
Increase in cash	16	1,126	5,310
Net inflow from bank loans		–	(13,044)
Exchange movement on bank loans		991	1,128
Exchange differences on cash		(551)	(82)
Other non-cash changes		(18)	(3)
<b>Movement in net debt in the year</b>		1,548	(6,691)
<b>Opening net debt</b>		(12,261)	(5,570)
<b>Closing net debt</b>		<b>(10,713)</b>	<b>(12,261)</b>

The accompanying notes on pages 38 to 47 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 2015 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.

#### (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 Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009.

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 designated as valued at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed investments 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 Short Term Deposits

Cash and short term deposits 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

	2015 £'000	2014 £'000
<b>Income from investments</b>		
Listed overseas dividends	1,554	1,259
<b>Total income</b>	<b>1,554</b>	<b>1,259</b>
<b>Total income comprises</b>		
Dividends from financial assets designated at fair value through profit or loss	1,554	1,259
<b>Total income</b>	<b>1,554</b>	<b>1,259</b>

## 3 Investment Management Fee – all charged to revenue

	2015 £'000	2014 £'000
Investment management fee	<b>897</b>	<b>869</b>

Details of the Investment Management Agreement are set out on page 20. The annual management fee is 0.95% on the first £50m of net assets and 0.65% on the remaining net assets, calculated quarterly. Prior to 1 April 2013 the annual fee was 1.0% of net assets, calculated quarterly.

## 4 Other Administrative Expenses

	2015 £'000	2014 £'000
General administrative expenses	274	197
Directors' fees (see Directors' Remuneration Report on pages 28 and 29)	126	109
Auditor's remuneration – statutory audit of the Company's financial statements	19	19
– for non-audit services (acting as reporting accountant on publication of prospectus)	–	30
	<b>419</b>	<b>355</b>
Share issuance expenses deducted from issuance proceeds (see note 13)	(38)	(54)
Other administrative expenses charged to revenue	<b>381</b>	<b>301</b>

## 5 Finance Costs of Borrowings

	2015 £'000	2014 £'000
Interest on bank loans	495	231
Loan breakage costs*	–	15
	<b>495</b>	<b>246</b>

\* During the year to 31 January 2014 the Company incurred costs of £15,000 relating to the early repayment of a bank loan which were charged to capital.

## 6 Tax on Ordinary Activities

	2015 £'000	2014 £'000
<b>Analysis of charge in year</b>		
Overseas taxation	155	97
<b>Factors affecting tax charge for year</b>		
The tax assessed for the year is lower (2014 – lower) than the standard rate of corporation tax in the UK of 21.33% (2014 – 23.17%)		
The differences are explained below:		
Net return on ordinary activities before taxation	13,245	33,542
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.33% (2014 – 23.17%)	2,825	7,772
Effects of:		
Capital returns not taxable	(2,872)	(7,804)
Income not taxable	(325)	(284)
Overseas withholding tax	155	97
Taxable losses in year not utilised	372	316
Current tax charge for the year	155	97

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 23% to 21% with effect from 1 April 2014. Accordingly, the Company's profits for the year to 31 January 2015 are taxed at an effective rate of 21.33%.

### Factors that may affect future tax charges

At 31 January 2015 the Company had a potential deferred tax asset of £2,297,000 (2014 – £1,945,000) 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% (2014 – 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

	2015 Revenue	2015 Capital	2015 Total	2014 Revenue	2014 Capital	2014 Total
Net return on ordinary activities after taxation	(1.01p)	36.35p	35.34p	(0.69p)	96.62p	95.93p

Revenue return per ordinary share is based on the net revenue loss on ordinary activities after taxation of £374,000 (2014 – loss of £239,000) and on 37,038,511 ordinary shares (2014 – 34,861,637) 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 £13,464,000 (2014 – net capital gain of £33,684,000) and on 37,038,511 ordinary shares (2014 – 34,861,637) 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

	2015 £'000	2014 £'000
<b>Financial assets at fair value through profit or loss</b>		
Listed overseas – equity investments	140,006	126,381
<b>Total investments in financial assets at fair value through profit or loss</b>	<b>140,006</b>	<b>126,381</b>

	Listed equities £'000
Cost of investments held at 1 February 2014	76,388
Investment holding gains at 1 February 2014	49,993
Fair value of investments held at 1 February 2014	<b>126,381</b>
Movements in year:	
Purchases at cost	16,492
Sales – proceeds	(15,673)
– gains on sales	3,749
Changes in investment holding gains	9,057
Fair value of investments held at 31 January 2015	<b>140,006</b>
Cost of investments held at 31 January 2015	80,956
Investment holding gains at 31 January 2015	59,050
Fair value of investments held at 31 January 2015	<b>140,006</b>

The gains on sales of £3,749,000 and increase in investment holding gains of £9,057,000 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 £12,000 (2014 – £16,000) and £10,000 (2014 – £6,000) respectively. Of the gains on sales during the year of £3,749,000 (2014 – gains of £4,209,000), a net gain of £3,911,000 (2014 – net gain of £298,000) was included in the investment holding gains at the previous year end.

	2015 £'000	2014 £'000
<b>Net gains on investments designated at fair value through profit or loss on initial recognition</b>		
Gains on sales	3,749	4,209
Changes in investment holding gains	9,057	28,632
	<b>12,806</b>	<b>32,841</b>

## 9 Debtors

	2015 £'000	2014 £'000
Income accrued (net of withholding tax) and prepayments	246	186
Sales for subsequent settlement	491	–
Other debtors	20	16
	<b>757</b>	<b>202</b>

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

**10 Creditors – amounts falling due within one year**

	2015 £'000	2014 £'000
Purchases for subsequent settlement	1,010	–
Other creditors and accruals	405	361
	<b>1,415</b>	<b>361</b>

Included in creditors is £247,000 (2014 – £223,000) 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**

	2015 £'000	2014 £'000
Bank loan	<b>18,894</b>	<b>19,867</b>

The bank loan is stated after deducting the arrangement fee of £123,000 which will be amortised over the term of the loan. Amortisation of the arrangement fee during the year was £18,000 (2014 – £3,000) – see note 16 on page 44.

**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 2015**

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

**At 31 January 2014**

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.

No security had been provided in respect of the bank loans outstanding at 31 January 2014 or 2015. Subsequent to the year end on 17 February 2015, security was provided to ING Bank N.V. in respect of the ¥3,350 million loan by way of a floating charge. The interest rate payable on the loan was reduced by 0.30% to 2.217% as a result of this change.

The interest rate and maturity profiles of the bank loans are shown in note 19.

**12 Called Up Share Capital**

	2015 Number	2015 £'000	2014 Number	2014 £'000
Allotted and fully paid ordinary shares of 10p each	<b>37,175,497</b>	<b>3,718</b>	<b>36,675,497</b>	<b>3,668</b>

At 31 January 2015 the Company had authority to buy back 5,527,637 shares. No shares were bought back during the year. Share buy-backs are funded from the capital reserve.

During the year the Company issued 500,000 shares on a non pre-emptive basis at a premium to net asset value 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 2014	3,668	21,783	21,521	71,682	(4,693)	<b>113,961</b>
Ordinary shares issued – gross proceeds	50	1,572	–	–	–	<b>1,622</b>
Share issuance expenses	–	(38)	–	–	–	<b>(38)</b>
Net gain on disposal of investments	–	–	–	3,749	–	<b>3,749</b>
Changes in investment holding gains	–	–	–	9,057	–	<b>9,057</b>
Exchange differences on bank loans	–	–	–	991	–	<b>991</b>
Exchange differences on settlement of investment transactions	–	–	–	218	–	<b>218</b>
Other exchange differences	–	–	–	(551)	–	<b>(551)</b>
Net revenue return for the year	–	–	–	–	(374)	<b>(374)</b>
At 31 January 2015	<b>3,718</b>	<b>23,317</b>	<b>21,521</b>	<b>85,146</b>	<b>(5,067)</b>	<b>128,635</b>

The capital reserve includes investment holding gains of £59,050,000 (2014 – gains of £49,993,000) as disclosed in note 8.

### 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:

	2015	2014	2015 £'000	2014 £'000
Ordinary shares	<b>346.0p</b>	<b>310.7p</b>	<b>128,635</b>	<b>113,961</b>

Net asset value per ordinary share is based on the net assets as shown above and on 37,175,497 (2014 – 36,675,497) 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 346.0p to 345.8p (2014 – reducing net asset value per ordinary share from 310.7p to 310.4p)

Deducting borrowings at fair value would have the effect of reducing the net asset value per ordinary share to 343.7p. Taking the market price of the ordinary shares at 31 January 2015 of 321.0p, this would have given a discount to net asset value of 6.6% as against 7.2% on the basis of deducting borrowings at par. At 31 January 2014 the net asset value after deducting borrowings at fair value was 307.8p.

Taking the market value of the ordinary shares at 31 January 2014 of 328.0p, this would have given a premium to net asset value of 6.6%. The basis of deducting borrowings at par would have given a premium to net asset value of 5.6%.

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

	2015 £'000	2014 £'000
Net return before finance costs and taxation	13,740	33,788
Gains on investments	(12,806)	(32,841)
Currency gains	(658)	(858)
Increase in accrued income and prepayments	(71)	(32)
Increase in creditors	47	37
Net cash inflow from operating activities	<b>252</b>	<b>94</b>

## 16 Analysis of Change in Net Debt

	At 1 February 2014 £'000	Cash flows £'000	Exchange movement £'000	Other non-cash changes £'000	At 31 January 2015 £'000
Cash and short term deposits	7,606	1,126	(551)	–	<b>8,181</b>
Loans due after one year	(19,867)	–	991	(18)	<b>(18,894)</b>
	<b>(12,261)</b>	<b>1,126</b>	<b>440</b>	<b>(18)</b>	<b>(10,713)</b>

## 17 Contingent Liabilities, Guarantees and Financial Commitments

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

## 18 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 28. No Director has a contract of service with the Company. During the years reported no Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.

## 19 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.

## 19 Financial Instruments and Risk Management (continued)

### Currency Risk (continued)

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.

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

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

At 31 January 2014	Investments £'000	Cash and deposits £'000	Bank loans £'000	Other debtors and creditors* £'000	Net exposure £'000
Yen	126,381	7,546	(19,867)	93	<b>114,153</b>
Total exposure to currency risk	126,381	7,546	(19,867)	93	<b>114,153</b>
Sterling	–	60	–	(252)	<b>(192)</b>
	<b>126,381</b>	<b>7,606</b>	<b>(19,867)</b>	<b>(159)</b>	<b>113,961</b>

\* Includes net non-monetary assets of £11,000.

### Currency Risk Sensitivity

At 31 January 2015, 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 £12,889,000 (2014 – £11,415,000). 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 2015 is shown on page 46. There was no significant change to the interest rate risk profile during the year.

### Financial Assets

	2015 Fair value £'000	2015 Weighted average interest rate	2014 Fair value £'000	2014 Weighted average interest rate
<b>Cash:</b>				
Yen	8,137	nil	7,546	nil
Sterling	44	0.01%	60	0.01%
	<b>8,181</b>		<b>7,606</b>	

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.

## 19 Financial Instruments and Risk Management (continued)

### Interest Rate Risk (continued)

#### Financial Liabilities

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

	2015 Book value £'000	2015 Weighted average interest rate	2015 Weighted average period until maturity	2014 Book value £'000	2014 Weighted average interest rate	2014 Weighted average period until maturity
<b>Bank loans:</b>						
Yen denominated – fixed rate	18,894	2.5%	70 months	19,867	2.5%	82 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 16 to 17. 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 14 and 15.

108.8% of the Company's net assets are invested in Japanese quoted equities (2014 – 110.9%). A 10% increase in quoted equity valuations at 31 January 2015 would have increased total net assets and net return on ordinary activities after taxation by £14,001,000 (2014 – £12,638,000). 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.

#### 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:

	2015 £'000	2014 £'000
In less than one year:		
– accumulated interest	485	510
In more than one year but not more than five years:		
– accumulated interest	1,940	2,040
In more than five years:		
– repayment of loan	18,989	19,987
– accumulated interest	400	929
	<b>21,814</b>	<b>23,466</b>

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

## 19 Financial Instruments and Risk Management (continued)

### 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 2015 and 2014, 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:

	2015 £'000	2014 £'000
Cash and deposits	8,181	7,606
Debtors	741	191
	<b>8,922</b>	<b>7,797</b>

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

### 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.

	2015 Book value £'000	2015 Par value £'000	2015 Fair* value £'000	2014 Book value £'000	2014 Par value £'000	2014 Fair* value £'000
Fixed rate yen bank loans	<b>18,894</b>	<b>18,989</b>	<b>19,745</b>	<b>19,867</b>	<b>19,987</b>	<b>20,945</b>

\* 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 42. 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 21 and 22.

### 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.

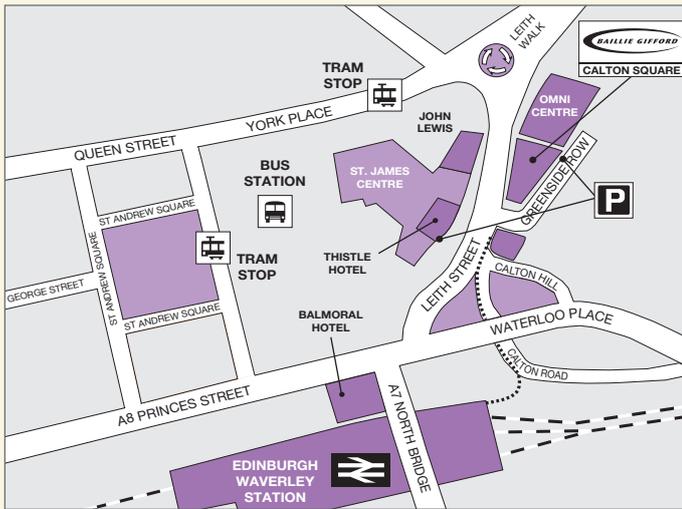
**Level 2** – reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only data from observable markets.

**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 38.

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 Thursday, 21 May 2015 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.

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

Notice is hereby given that the thirtieth 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 21 May 2015 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 2015 with the Reports of the Directors and of the Independent Auditors thereon.
- To approve the Directors' Annual Report on Remuneration for the year ended 31 January 2015.
- To re-elect Mr PF Charig as a Director.
- To re-elect Mr IA McLaren as a Director.
- To re-elect Mrs MR Somerset Webb as a Director.
- To elect Mr MN Donaldson as a Director.
- To reappoint PricewaterhouseCoopers LLP as Independent Auditors of the Company.
- To authorise the Directors to determine the remuneration of the Independent Auditors 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 £1,239,183.20 (representing 33.33% of the Company's total issued share capital as at 24 March 2015), 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 10 and 11 as Special Resolutions:

- That, subject to the passing of Resolution 9 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 Section 570 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into ordinary shares held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by Resolution 9 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, 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 £371,754.90 being approximately 10% of the nominal value of the issued share capital of the Company, as at 24 March 2015.

11. 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 5,572,607 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 2016, 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 2015

## 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.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy) 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](http://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 auditors) setting out any matter relating to the audit of the Company's financial statements, including the auditors' 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](http://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 2015 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 37,175,497 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 23 March 2015 were 37,175,497 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 52 and 53 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](http://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](http://www.shinnippon.co.uk), Trustnet at [www.trustnet.co.uk](http://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
	<u>50.00p</u>	

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

The attributable costs are:

	Apportioned cost	First day of dealing value
Cost of each ordinary share	164.81p	178.00p
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 0870 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](http://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](http://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](http://www.investorcentre.co.uk/eproxy).

If you have any questions about this service please contact Computershare on 0870 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

	2015 Number of shares held	2015 %	2014 Number of shares held	2014 %
Institutions	9,000,501	24.2	9,611,667	26.2
Intermediaries	23,123,094	62.2	22,681,307	61.8
Individuals*	2,569,846	6.9	2,274,755	6.2
Baillie Gifford Share Plans/ISA	2,048,631	5.5	1,966,144	5.4
Marketmakers	433,425	1.2	141,624	0.4
	<b>37,175,497</b>	<b>100.0</b>	<b>36,675,497</b>	<b>100.0</b>

\* 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](http://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](http://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 55).

### **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'). 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](http://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 2015 are as follows:

### Leverage

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.15:1	1.15:1

## 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.

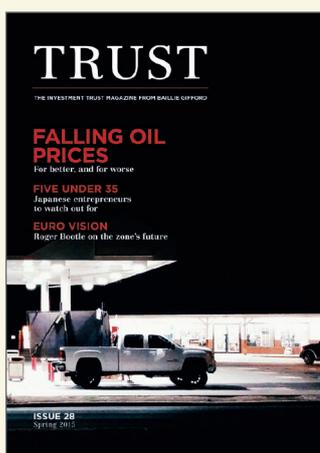
Gearing represents its cash borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds.

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.

## 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](http://www.bgtrustonline.com).

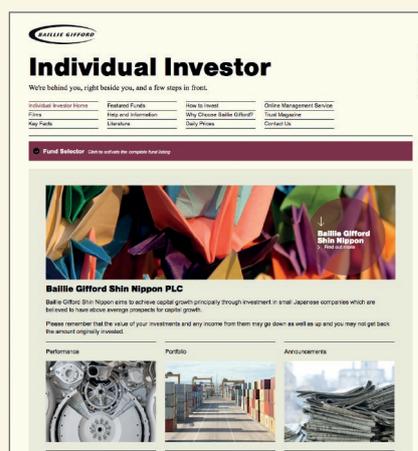
### Baillie Gifford Shin Nippon on the Web

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](http://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 52 and 53.



A Shin Nippon web page at [www.shinnippon.co.uk](http://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:** [trutenquiries@bailliegifford.com](mailto:trutenquiries@bailliegifford.com)

**Website:** [www.bailliegifford.com](http://www.bailliegifford.com)

**Fax:** 0131 275 3955

### Client Relations Team

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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:  
BM Rose

PF Charig  
MN Donaldson  
IA McLaren  
MR Somerset Webb  
SCN Somerville

## **Managers, Secretaries and Registered Office**

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## **Independent Auditors**

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Chartered Accountants and  
Statutory Auditors  
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## **Depositary**

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