BAILLIE GIFFORD SHIN NIPPON PLC

Investing in new
opportunities in Japan

Annual Report and Financial Statements
31 January 2018

Contents

Investor Disclosure Document

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

Notes

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

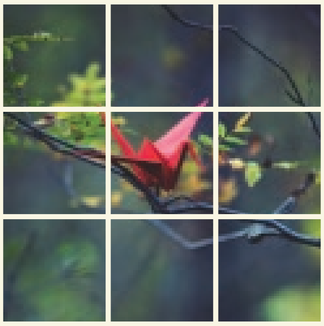
Investment trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

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

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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



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

Financial Highlights – Year to 31 January 2018

Share Price +54.2%

NAV +46.0% (borrowings at book value†)

NAV +46.1% (borrowings at fair value†)

Comparative Index* +17.0% (borrowings at fair value†)

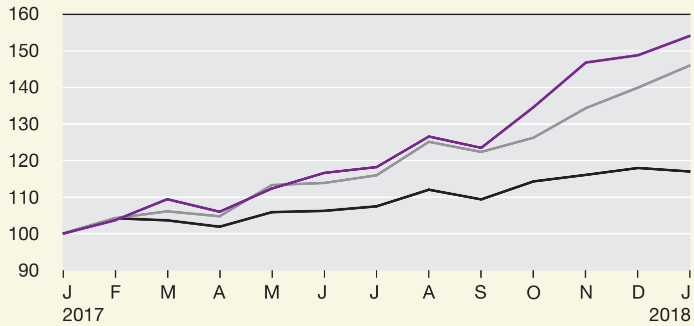
NAV, Share Price and Comparative Index

(figures rebased to 100 at 31 January 2017)

Share price

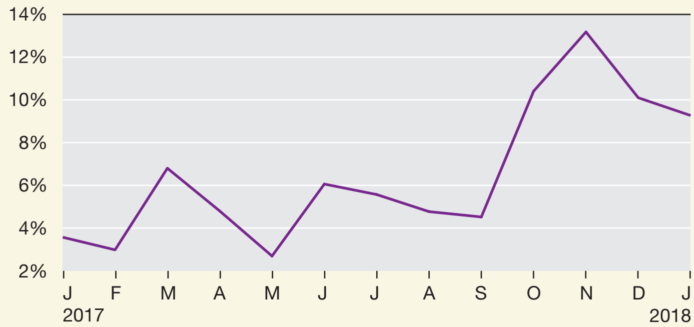
NAV (after deducting borrowings at fair value)

Comparative Index*



Premium

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).
† NAV movement reported on basis of net asset value per ordinary share. See Glossary of Terms on page 61.
Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers. See disclaimer on page 60.

Past performance is not a guide to future performance.

Strategic Report

This Strategic Report, which includes pages 2 to 21 and incorporates the Chairman's Statement has been prepared in accordance with the Companies Act 2006.

Chairman's Statement

Performance

I am delighted to report that Shin Nippon has enjoyed another excellent year. Your Board however places primary importance on reviewing performance on a rolling three year basis. Over this period Shin Nippon's net asset value per share* (NAV) rose by 145.5% and its share price by 187.2% versus the comparative index (MSCI Japan Small Cap Index, total return in Sterling terms) return of 75.0%. This was once again another period of strong performance in both absolute and relative terms. It is pleasing to note that Shin Nippon is among the top 3 performing investment trusts (in NAV total return terms) over 3, 5 and 10 years across the entire investment trust universe in the UK. This is testament to the fact that Japan offers a fertile hunting ground for exciting, high-growth businesses and investing in these can prove rewarding for shareholders over the long-term.

Over the year to 31 January 2018 the Company's NAV per share increased by 46.1% versus the comparative index return of 17.0%. The Company's share price also performed very well indeed with an increase of 54.2% over the year. Once again, this has been another excellent year for the Company. The share price remained at a premium to net asset value throughout the year and stood at a premium of 9.3% at the year end. The Board is mindful that the shares have recently been trading at a substantial premium and actively seeks to reduce the imbalance between buyers and sellers by issuing shares, as noted below.

In the Manager's Report on page 10 you will find a more detailed explanation of the Company's performance and some of the holdings. It is pleasing that the policy of identifying and investing in small, entrepreneurial and disruptive Japanese companies has produced such excellent results in recent years.

Share Issuance

During the year the Company issued 7,090,000 shares. This represented 17.6% of the Company's share capital at 31 January 2017. These shares were issued at an average premium to net asset value of 6.5% and raised £55.8m. Owing to the strong demand for the Company's shares, two general meetings were convened to seek shareholder approval for the additional issuance authorities required.

In addition to helping moderate the premium, by approving these share issuances your Board continues to recognise that by increasing the size of the Company the shares are more likely to have improved liquidity and be more attractive to a wider range of shareholders.

Borrowings

The Manager continues to use gearing to enhance portfolio performance and your Board is supportive of this strategy. Gearing at the year end was equivalent to 10.5% of net assets.

The Company started the year with bank debt of ¥3.35bn. In March 2017 the Board drew down additional fixed rate secured borrowings of ¥2.0bn. These borrowings mature in November 2020 in line with the existing debt. Additionally, in December 2017 a new 7 year fixed rate facility of ¥2.1bn was drawn down, maturing in December 2024, bringing total borrowings at 31 January 2018 to ¥7.45bn (£47.9m). The level of gearing had fallen due to the Company's strong growth over recent years and these additional borrowings restore the gearing to a level commensurate with the Board's conviction in the Company's long term investment strategy.

During the year the Yen weakened against Sterling by 8.8%. The Company undertook no currency hedging during the year and has no plans to do so.

Revenue

The revenue return per share fell from a surplus of 0.26p to a deficit of 0.53p during the year. This was due to the increase in portfolio dividend income being outpaced by the negative effect of the increased management fee (due to the rise in NAV) and higher finance costs from the increased gearing.

The year to 31 January 2018 was the first full year under the new management fee arrangements and it is pleasing to note that the ongoing charges ratio has fallen from 0.96% to 0.89% as more assets now fall under the lowest rate tier of the management fee structure. This illustrates the benefit to all shareholders from enlarging the Company through share issuance. Net assets increased from £234m at the previous year end to over £401m at 31 January 2018.

Investment Policy

The Board has approved a modest amendment to the Company's investment policy to allow an increase in the individual holding size at time of purchase from 3% to 5% of total assets (see page 7). This will provide the Managers with the opportunity to take slightly larger initial positions or make additional investments when conviction in the investment case is strong.

AGM

At this year's AGM we are again seeking authority to issue new shares of up to 10% of the Company's share capital. Any shares issued would be for cash, on a non-pre-emptive basis and only at a premium to net asset value thereby enhancing the net asset value for existing shareholders. Your Board continues to believe that by satisfying natural supply and demand for our shares we are acting in the best interests of existing shareholders. We will monitor this closely.

Your Board will again be seeking approval to buy back shares should they start trading at a substantial discount either in absolute terms or in relation to its peers. Similarly, if required this activity would enhance the net asset value attributable to existing shareholders.

Past performance is not a guide to future performance.
See disclaimer on page 60.

* After deducting borrowings at fair value – see Glossary of Terms on page 61.

The sharp rise in the Company's share price over the last few years – to over £9 today – has been excellent news for existing investors. However, the Board is aware that it might be mildly off-putting to new investors and that it can cause problems for those who invest small sums monthly (they will often find that a considerable part of their monthly payment stays uninvested). With that in mind the Board would like to split each share into five. As explained on page 24, a sub-division of each of the current ordinary shares of 10p shares into five ordinary shares of 2p nominal value is proposed. If this resolution is approved, your holding will be multiplied by five and the share price of each new share is anticipated to adjust downwards accordingly. For shareholders who hold their shares in certificated form, new share certificates will be issued and the old certificates will become invalid.

At the AGM we will also be seeking approval to increase the aggregate annual limit in the Company's Articles of Association for Directors' fees from £150,000 per annum to £200,000. This is proposed to allow for a temporary increase in Board numbers (see Governance below) and for future fee increases. This limit was last increased in 2009.

Governance

Francis Charig and Iain McLaren will both retire from the Board at the AGM in 2019. During the next six months the Board will be actively seeking their replacements. It is hoped that this can be completed by the autumn of this year to help engineer a smooth transition for the new Board members. I will thank Messrs Charig and McLaren more fully for their services to the Company in next year's Chairman's Statement.

Outlook

Concerns about global growth remain. Following last year's anxieties over Brexit and the election of President Trump, there is now a realisation that interest rates in the US and to a lesser extent in the UK are on the rise. Whilst these uncertainties remain, the argument in favour of selective stock picking is robust and over the years the management team has developed a strong reputation in this regard.

Along with the Managers, your Board had the opportunity to visit Japan in November. We met presidents and CEOs of companies that we hold and companies that are on the Managers' radar screen for potential investment. It was evident to us that the entrepreneurial spirit in Japan is strong. There are still issues in the country, most notably with a tightening of the labour market and an ageing population, but the last eight consecutive quarters have all shown positive GDP growth – its longest continuous run for more than a decade. This growth has been driven by all corners of the economy and more recently we have even seen the services sector outpace manufacturing. We are also seeing more and more companies raising prices, including a number of our portfolio holdings, and this may well lead to a welcome return to modest inflation over the months ahead.

Tourism continues to grow strongly in Japan and last year tourist numbers in Okinawa overtook those in Hawaii! I reported previously that the number of foreign workers in Japan had surpassed 1m. That figure is now nearly 1.3m.

There is much to be positive about. There is a drive to improve corporate governance. More external, independent directors are being appointed to Boards and this in turn will afford greater consideration and protection for shareholders.

Our visit reinforced our belief that growth prospects remain exciting. Your Board continues to support the stock picking approach of the Company and are wholly supportive of the Managers in seeking those opportunities. Your Company has an enviable track record of performance and we continue to remain encouraged by the outlook.

M Neil Donaldson
26 March 2018

One Year Summary

The following information illustrates how Shin Nippon has performed over the year to 31 January 2018.

	31 January 2018	31 January 2017	% change
Total assets (before deduction of bank loans)	£449.3m	£257.5m	
Bank loans	£47.9m	£23.6m	
Shareholders' funds	£401.4m	£233.9m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	843.7p	577.4p	46.1
Net asset value per ordinary share (after deducting borrowings at book value)*	845.3p	579.0p	46.0
Net asset value per ordinary share (after deducting borrowings at par value)*	845.1p	578.8p	46.0
Share price	922.0p	598.0p	54.2
Comparative Index†			17.0
Yen/sterling exchange rate	155.22	141.63	(8.8)
Premium (after deducting borrowings at fair value)*	9.3%	3.6%	
Premium (after deducting borrowings at par value)*	9.1%	3.3%	
Revenue (loss)/earnings per ordinary share	(0.53p)	0.26p	
Ongoing charges*	0.89%	0.96%	
Active share*	93%	94%	

Year to 31 January	2018	2018	2017	2017
Year's high and low	**High**	**Low**	**High**	**Low**
Net asset value per ordinary share (after deducting borrowings at fair value)*	866.5p	574.9p	612.7p	374.8p
Net asset value per ordinary share (after deducting borrowings at par value)*	868.1p	576.3p	614.5p	376.2p
Share price	950.0p	598.0p	622.0p	386.0p
Premium/(discount) (after deducting borrowings at fair value)*	13.2%	(0.3%)	9.6%	(6.6%)
Premium/(discount) (after deducting borrowings at par value)*	13.0%	(0.5%)	9.3%	(6.9%)

	31 January 2018	31 January 2017
Net return per ordinary share		
Revenue return	(0.53p)	0.26p
Capital return	261.52p	142.88p
Total return	**260.99p**	**143.14p**

* See Glossary of Terms on page 61.
† The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms).
Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers. See disclaimer on page 60.

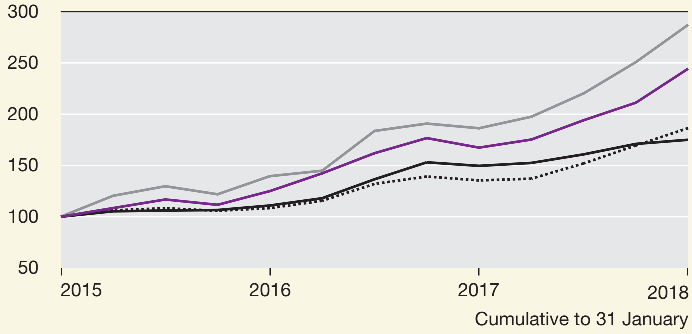
Past performance is not a guide to future performance.

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 2018. The Board reviews performance principally over rolling three year periods.

Three Year Performance

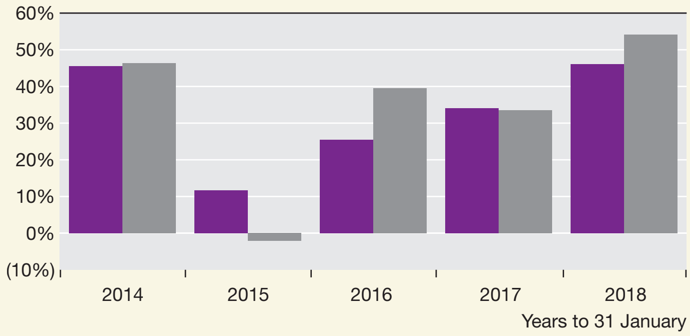
(figures rebased to 100 at 31 January 2015)



Source: Thomson Reuters/Morningstar/Baillie Gifford and relevant underlying index providers‡.

Shin Nippon NAV#
Shin Nippon share price#
Peer Group NAV#
Comparative Index*

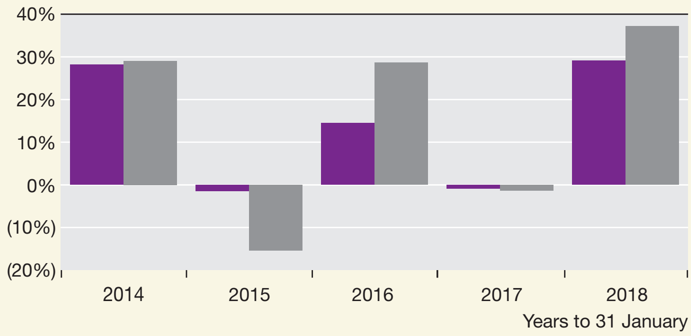
Annual change in Net Asset Value and Share Price



Source: Thomson Reuters/Baillie Gifford‡.

NAV return (after deducting borrowings at fair value)†
Share price return

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



Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers‡.

Relative NAV return (after deducting borrowings at fair value)†
Relative share price return

Total return. NAV data is after deducting borrowings at par value (see Glossary of Terms on page 61). AIC peer group comprises: Atlantis Japan Growth, Fidelity Japanese Values and JP Morgan Japanese Smaller Companies; data is unweighted.

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

† See Glossary of Terms on page 61.

‡ See disclaimer on page 60.

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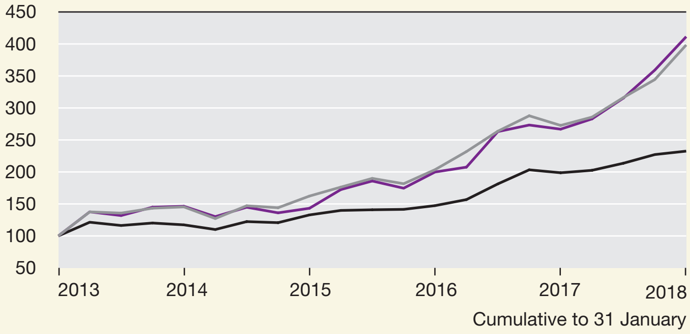
Five Year Performance

(figures rebased to 100 at 31 January 2013)



Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers‡.

Share price

NAV (after deducting borrowings at fair value)#

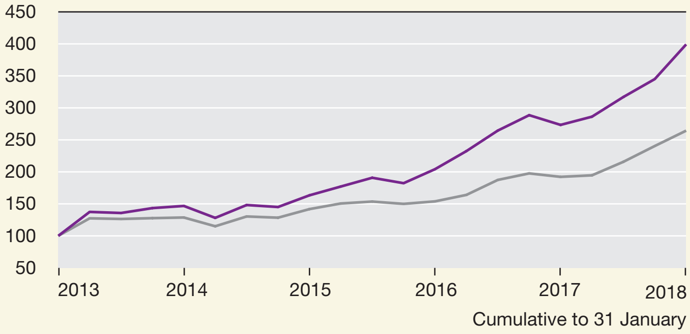
Comparative Index*

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

See Glossary of Terms on page 61.

Five Year Peer Group Performance

(figures rebased to 100 at 31 January 2013)



Source: Morningstar/Baillie Gifford‡.

Shin Nippon

Peer Group†

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

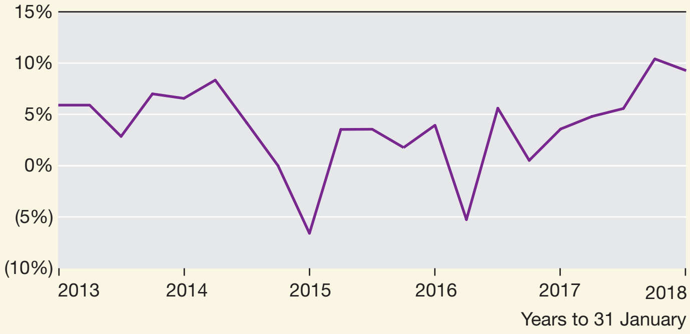
† AIC peer group comprises: Atlantis Japan Growth, Fidelity Japanese Values and JP Morgan Japanese Smaller Companies

Data is unweighted.

See Glossary of Terms on page 61.

(Discount)/Premium to Net Asset Value

(plotted on a quarterly basis)

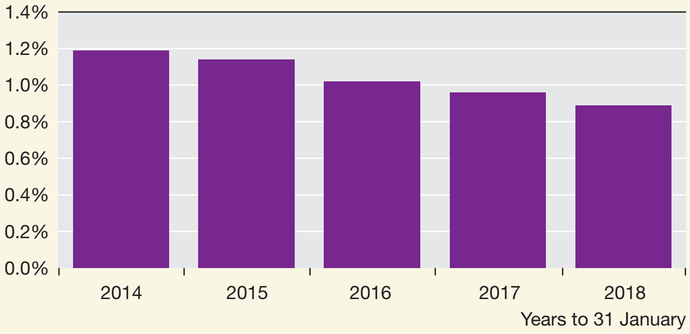


Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers‡.

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 (see Glossary of Terms on page 61).

Ongoing Charges



Source: Baillie Gifford.

Ongoing charges are calculated as total operating costs divided by average net asset value (see Glossary of Terms on page 61).

‡ See disclaimer on page 60.

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 and the Investment Trust (Approved Company) Regulations 2011.

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

Objective and Policy

The Board has approved a modest amendment to the Company's investment policy to allow an increase in the individual holding size at time of purchase from 3% to 5% of total assets. This change will provide the Managers with the opportunity to take slightly larger initial positions or make additional investments when conviction in the investment case is strong. The amended Objective and Policy is set out below.

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

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

In constructing the equity portfolio a spread of risk is achieved by diversifying the portfolio through investment in 40 to 75 holdings. Although sector concentration and the thematic characteristics of the portfolio are carefully monitored, there are no maximum limits to deviation from comparative index stock or sector weights.

Holdings are limited to 5% of total assets at time of purchase. Any holding that, as a result of performance exceeds 5% of total assets 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 18 and 19 and in the Managers' Report and Review of Investments on pages 10 to 17.

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.

An explanation of these measures can be found in the Glossary of Terms on page 61.

These are also compared against the Company's peers. Performance is assessed over periods of one, three and five years although the Board reviews performance principally over rolling three year periods.

A historical record of the KPIs is shown on pages 4 to 6 and on page 21.

Borrowings

The Company has ¥7,450 million fixed rate secured borrowings with ING Bank N.V. (2017 – ¥3,350 million) maturing between 27 November 2020 and 18 December 2024 as detailed on page 47.

During the year the Company drew down additional borrowings from ING Bank N.V. – ¥2,000 million at 1.301% maturing on 27 November 2020 and ¥2,100 million at 1.693% maturing on 18 December 2024.

Principal Risks

As explained on pages 28 and 29 there is a process for identifying, evaluating and managing the risks faced by the Company on a regular basis. The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A description of these risks and how they are being managed or mitigated is set out below:

Financial Risk – The Company's assets consist mainly of listed securities and its principal risks are therefore market related and include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of those risks and how they are managed is contained in note 17 to the Financial Statements on pages 49 to 52. To mitigate this risk the Board considers at each meeting various portfolio metrics including individual stock performance and weightings, the top and bottom contributors to performance and relative sector weightings against the comparative index. The Manager provides rationale for stock selection decisions. A comprehensive strategy meeting is held annually to facilitate challenge of the Company's strategy.

Investment Strategy Risk – pursuing an investment strategy to fulfil the Company's objective which the market perceives to be unattractive or inappropriate, or an ineffective implementation of an attractive or appropriate strategy, may lead to reduced returns for shareholders and, as a result, a decreased demand for the Company's shares. This may lead to the Company's shares trading at a widening discount to their Net Asset Value. To mitigate this risk, the Board regularly reviews and monitors the Company's objective and investment policy and strategy; the investment portfolio and its performance; the level of discount/premium to Net Asset Value at which the shares trade; and movements in the share register.

Discount Risk – the discount/premium at which the Company's shares trade relative to its Net Asset Value can change. The risk of a widening discount is that it may undermine investor confidence in the Company. To manage this risk, the Board monitors the level of discount/premium at which the shares trade and the Company has authority to buy back its existing shares when deemed by the Board to be in the best interests of the Company and its shareholders.

Regulatory Risk – failure to comply with applicable legal and regulatory requirements such as the tax rules for investment trust companies, the UKLA Listing Rules and the Companies Act could lead to suspension of the Company's Stock Exchange listing, financial penalties, a qualified audit report or the Company being subject to tax on capital gains. To mitigate this risk, Baillie Gifford's Business Risk, Internal Audit and Compliance Departments provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes. Major regulatory change could impose disproportionate compliance burdens on the Company. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised. Shareholder documents and announcements, including the Company's published Interim and Annual Report and Financial Statements, are subject to stringent review processes, and procedures are in place to ensure adherence to the Transparency Directive and the Market Abuse Directive with reference to inside information.

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

Small Company Risk – the Company has investments in smaller companies which are generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions. To mitigate this risk, the Board reviews the investment portfolio at each meeting and discusses the investment case and portfolio weightings with the Managers. A spread of risk is achieved by holding a minimum of 40 stocks and the relative industry weightings against the comparative index are considered at each Board meeting.

Operational Risk – failure of Baillie Gifford's systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. To mitigate this risk, Baillie Gifford has a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The Board reviews Baillie Gifford's Report on Internal Controls and the reports by other key third party providers are reviewed by Baillie Gifford on behalf of the Board.

Leverage Risk – the Company may borrow money for investment purposes (sometimes known as 'gearing' or 'leverage'). If the investments fall in value, any borrowings will magnify the extent of this loss. If borrowing facilities are not renewed, the Company may have to sell investments to repay borrowings. To mitigate this risk, all borrowings require the prior approval of the Board and leverage levels are discussed by the Board and Managers at every meeting. Covenant levels are monitored regularly. The majority of the Company's investments are in listed securities that are readily realisable. Further information on leverage can be found on page 60 and in the Glossary of Terms on page 61.

Political Risk – Political developments are closely monitored and considered by the Board. The Board has noted the Government's intention that the UK should leave the European Union on 29 March 2019. Whilst there remains considerable uncertainty at present, the Board will continue to monitor developments as they occur and assess the potential consequences for the Company's future activities.

Viability Statement

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

In considering the viability of the Company, the Directors have conducted a robust assessment of each of the principal risks and uncertainties detailed on page 8 and in particular the impact of market risk where a significant fall in Japanese small equities markets would adversely impact the value of the investment portfolio. The Directors have also considered the Company's leverage and liquidity in the context of the fixed term secured bank loans which were increased during the year by ¥4.1bn and which are due to expire in 2020 and 2024. Although the Company's revenue account is expected to remain in deficit, its investments are primarily listed equities which are readily realisable and so capable of being sold to provide funding if required. Specific leverage and liquidity stress testing was conducted during the year and no matters of concern were noted. In addition, all of the key operations required by the Company are outsourced to third party service providers and it is reasonably considered that alternative providers could be engaged at relatively short notice.

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

Employees, Human Rights and Community Issues

The Board recognises the requirement to provide information about employees, human rights and community issues. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced. There are no disclosures to be made in respect of employees, human rights and community issues.

Gender Representation

The Board comprises five Directors, four male and one female. The Company has no employees. The Board's policy on diversity is set out on page 28.

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 29.

The Company considers that it does not fall within the scope of the Modern Slavery Act 2015 and it is not, therefore, obliged to make a slavery and human trafficking statement. In any event, the Company considers its supply chains to be of low risk as its suppliers are typically professional advisers. A statement by the Managers under the Act has been published on the Managers' website at **www.bailliegifford.com**.

Future Developments of the Company

The outlook for the Company for the next year is set out in the Chairman's Statement on pages 2 and 3 and the Managers' Report on pages 10 and 11.

The Strategic Report which includes pages 2 to 21 was approved by the Board on 26 March 2018.

M Neil Donaldson
Chairman

Managers' Report

The past year saw good operational and share price performance from smaller companies in Japan. They benefitted from a strong domestic economy that is currently experiencing its longest continuous expansion since the 1980s. This is being driven by rising domestic consumption and corporate capex, as well as robust demand from overseas markets, especially from exciting growth areas such as factory automation. Regulation in Japan continues to be loosened, allowing young, dynamic and entrepreneurial companies to prosper. The overall business environment therefore remains very favourable and is having a positive effect on companies from a range of sectors.

Structural trends such as the labour shortage and expansion of tourism remain embedded in the domestic economy and are providing new growth opportunities for smaller companies. The Japanese labour market continues to be very tight and there are now over 150 jobs for every 100 applicants. This ratio is at its highest level in almost 4 decades and is having a dramatic effect on some sectors such as construction and services. Specialist staffing companies are among the chief beneficiaries of this trend and are witnessing rapid sales and earnings growth. Inbound tourism also remains strong. The Japanese government has doubled its target from 20 to 40 million tourists by 2020 as it achieved its original target five years early. With just under 30 million visitors in 2017, Japan is well on its way to meeting the new target. The continued strength in inbound tourism is benefitting a whole range of companies such as discount store operator Seria, online cosmetics retailer Istyle and one of Japan's largest travel operators, H.I.S. Interestingly, Istyle has also been raising prices for some of its top clients and more generally, we are seeing mounting evidence of companies exercising their pricing power.

Along with supportive trends in the domestic market, Japanese smaller companies are also enjoying a healthy level of demand from overseas customers. Factory automation and semiconductors are two areas where Japanese manufacturers witnessed exceptionally strong order-flow over the past year. Factory automation is a well-documented secular trend globally but technological advances in robotics have meant that the areas of application are broadening beyond the factory shop-floor. Healthcare is an example where we are seeing increasing use of smaller robots equipped with advanced sensors and artificial intelligence-enabled software. Consequently, there has been a noticeable acceleration in orders for companies such as Harmonic Drive that makes critical components for these robots. The global semiconductor industry is also witnessing an upswing, driven in part by China's ambitious investment plan in this area as well as long-term structural trends such as auto electrification. This is resulting in strong demand for semiconductor equipment manufacturers such as Horiba and auto sensor makers such as Nippon Ceramic.

Healthcare is another area where we see significant growth potential for smaller companies in Japan. We have previously noted the desire of the Japanese government to lead the world in regenerative medicine and the legislative changes that have been made to grant accelerated approval for innovative therapies.

Portfolio holdings SanBio and Healios are developing stem cells-based treatments for brain injury-related stroke and degenerative age-related blindness respectively. Both companies have made encouraging progress towards attaining fast-track approval. We are also encouraged by the deepening co-operation between the healthcare industry and academia in Japan. The quality of fundamental life sciences research in Japanese universities is world-renowned but commercialization has been a major failing due to a lack of support from the corporate sector and the government. Young and ambitious biotech companies such as SanBio and Healios are taking the lead in harnessing academic research and with strong support from the Abe government, we may yet see some of the exciting academic research being brought to the market over the next few years.

Performance

The MSCI Japan Small Cap Index (total return in sterling terms) rose by 17% over the year while Shin Nippon's net asset value per share (after deducting borrowings at fair value) rose by 46.1%. It is pleasing to note that this strong performance was driven by stocks from a wide range of sectors.

Some of our favourite online disruptors continued to perform well and are taking innovative measures to expand their addressable market. Fashion e-commerce website operator Start Today recently launched its own branded clothing that is customized based on each individual user's body measurements. For a nominal fee, users are sent a unique bodysuit fitted with tiny sensors that allow them to record accurate measurements which are then electronically transmitted to Start Today. In addition, it has also started offering a personal styling service for users, all of which should improve customer engagement. Specialist staffing company Outsourcing was the biggest positive contributor to performance. It is continuing to benefit from the tight labour market in Japan, has been raising prices and reported a more than doubling of profits in its most recent annual results. IRISO Electronics, which makes connectors for cars, and Optex, a leading global manufacturer of sensors for security systems and factory automation, also performed strongly. They saw robust demand for their products as car electrification and industrial automation remained strong global themes. Among the healthcare stocks in the portfolio, holding company Noritsu Koki was the standout performer. Its shares have almost tripled in value since our initial purchase just over a year ago. The new management team has exited the legacy photo processing business and has used the proceeds to build an impressive portfolio of potentially high growth healthcare-related companies.

Among the poor performers were companies beset by internal management issues and unfavourable industry changes. Both Cookpad, a user-generated recipe website, and Yonex, a global brand of badminton equipment, continue to suffer from poor operational execution by management. Condominium builder Takara Leben and specialist running shoes manufacturer ASICS are both struggling to adapt to shifts in consumer preferences although we are encouraged by steps taken by management so far to address these issues.

Past performance is not a guide to future performance.
See disclaimer on page 60.

Harmonic Drive
Harmonic Drive manufactures sophisticated, precision speed reduction gears that are used mostly in small robots to help robotic arms move precisely. The company is benefiting from increasing factory automation and the broadening of robotic applications into areas such as healthcare.

Portfolio

We pay less attention to the benchmark and focus more on a company's individual attractions. Consequently, Shin Nippon's active share figure continues to be high at 93%, implying just a 7% overlap with the comparative index. Annualised turnover within the portfolio was 7.4%, consistent with our long-term investment approach. However, we made new investments in a few exciting, high growth companies.

Online retailing of shoes is inherently difficult because of very high return rates but Locondo is attempting to change this through its differentiated online business model. It has developed a clever inventory management system that allows it to reduce return rates whilst offering free returns. The company is growing rapidly as its business model is attracting many shoe brands. We participated in the IPO of Katitas, a niche renovation specialist. Following the Second World War, Japan saw significant housing construction but a subsequent decline in population has resulted in many empty houses. Katitas is trying to address this problem by renovating such houses to a high standard and selling them at an affordable price to first-time buyers. We think this is a unique business with a sizeable growth opportunity given the significant stock of empty houses in Japan. We took a small holding in Moneytree, an unlisted fintech company that is building a financial data aggregation and analysis platform using artificial intelligence technologies.

Online advertising company F@N Communications was among the holdings that were sold over the past year. The company has struggled to adapt its business model to smartphones and growth has decelerated as a result. We lacked conviction in management's ability to get the business growing again and hence decided to sell our holdings. We also sold our holdings in toy maker Tomy following the resignation of its first foreign CEO whom we rated quite highly. Mobile virtual network operator Wirelessgate was another stock that was sold. The telecoms market in Japan will get more competitive with the entry of local e-commerce giant Rakuten and sub-scale players such as Wirelessgate are likely to suffer as a result.

Outlook

The combination of cyclical and structural tailwinds both in Japan and overseas is providing an ideal business environment for smaller companies in Japan. For those willing to embrace these opportunities, the long-term growth potential should be exciting. Our endeavour remains to seek out and invest in rapid growth businesses with dynamic management teams and we remain encouraged by the quality and breadth of investment opportunities.

Baillie Gifford & Co
26 March 2018

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

Outsourcing

2.8% of total assets

Outsourcing provides outsourcing services for manufacturing, IT and civil engineering companies. Rising demand for employees and the tight labour market in Japan provides a supportive industry background for the company. The company has been the first to adopt a new business model in this industry which appears to have given them a good first mover advantage. Outsourcing has set up Professional Employer Organisations (PEO's), vehicles that employ seasonal workers on a permanent basis. The specialist workers are then leased back to companies that pay to be members of the PEO. The system is popular as it allows companies seeking workers to avoid taking on full-time staff, and Outsourcing does not have to bid up for seasonal workers when they are required. The blue-chip list of clients is impressive.

Istyle

2.8% of total assets

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

Asahi Intecc

2.7% 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.

Nihon M&A Center

2.6% 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.

Optex

2.5% of total assets

Optex is a global leader in infrared and laser sensors used in areas such as surveillance systems, intrusion detection and factory automation. More recently, the company has been successful in expanding the areas of application for its sensors, a couple of examples being in remote monitoring of customer facilities and acceleration sensors that measure how safely people drive cars (which is then used for calculating insurance premiums for customers). The number of growing areas of applications for its sensors means that Optex is well placed to enjoy high growth rates for many years.

Outsourcing
Students registering at a Japanese jobs fair. Outsourcing has benefitted from the continuing tight labour market in Japan where there are over 150 jobs for every 100 applicants.

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.

Megachips

2.4% of total assets

Megachips is a fabless semiconductor chip design company. The company is a significant supplier of chips for Nintendo's gaming consoles and has been enjoying strong growth thanks to the ongoing success of Nintendo's latest console, Switch. They also have a subsidiary called SiTime that is emerging as a global leader in microelectromechanical (MEMS) based timing components for electronic devices. These are more accurate and energy efficient than the current quartz based timing components which are present in most electronic devices so the potential market opportunity for SiTime could be huge.

Start Today

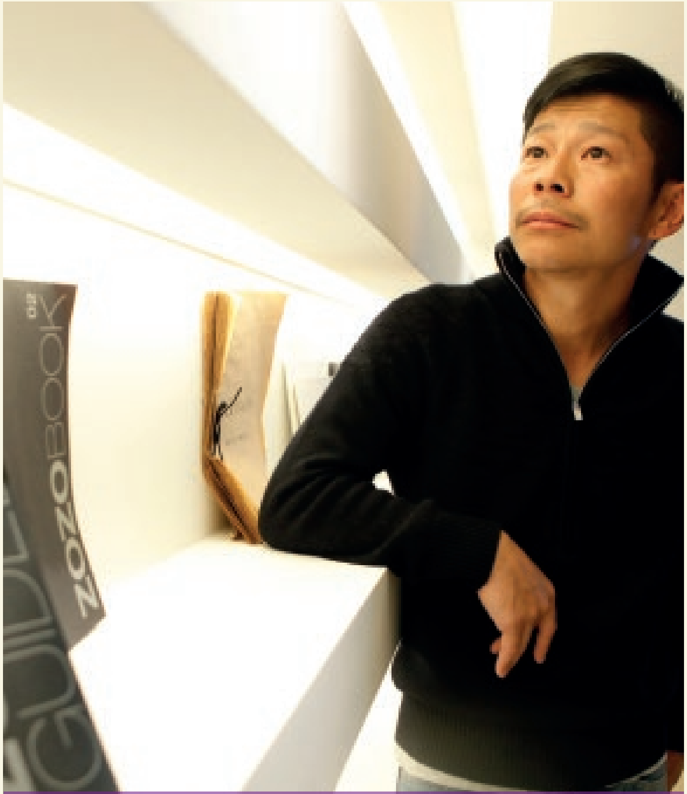
2.3% of total assets

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

Peptidream

2.2% of total assets

Traditionally, drugs can be categorised as either small molecules or large biologics such as antibodies, 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 and identification of candidates used in the development of biologics, Peptidream has developed a system that seeks to maximise the advantages and remove the limitations of existing drug discovery. Through extensively licensing this technology to large pharmaceutical companies, in addition to developing their own drug pipeline, we believe that Peptidream is well positioned to capitalise on its proprietary system.



Start Today
Yusaku Maezawa, chief executive and founder of Start Today. The company has achieved a dominant position in online fashion retail; a market that offers further significant growth potential.

GMO Payment Gateway

2.2% of total assets

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

New Buys

Gumi

0.5% of total assets

Gumi is a small mobile games developer run by its young and ambitious founder. It has a mediocre record of developing hit mobile games but the long-term excitement with the company is management's aggressive foray into virtual reality (VR). Gumi is among the few companies in Japan that are making a significant bet on VR becoming the next big trend in gaming. They are investing considerable sums of money to develop VR applications initially for the gaming market but have long term ambitions of expanding to non-gaming areas. Apart from in-house development, they have also established a near $100m VR fund that is investing in exciting VR related start-ups from across the globe. Given the potential size of the VR opportunity and Gumi's current market cap, we believe the upside could be substantial if the company were to succeed in this emerging area.

Katitas

1.6% of total assets

Katitas is a specialist real-estate developer that buys and renovates old, abandoned homes before selling them on to first-time buyers. The problem of empty houses in Japan is reaching acute levels, resulting in a hollowing out of entire communities. There are an estimated 8 million old or abandoned houses across Japan, most of them vacant. A lot of these are ancestral homes which families, despite living elsewhere, are reluctant to sell. For authorities looking to regenerate local economies, the only option is to demolish these properties and build new establishments, often for business purposes. The families are generally reluctant to give up these properties for sentimental reasons. Katitas offers an attractive option for these families by offering to acquire these houses and the associated land for a reasonable price, renovate these to a high standard before selling them. In the process, Katitas also ends up playing a part in rejuvenating local communities. Because these houses are scattered across Japan, sourcing potential properties is quite difficult. Over the years, Katitas has developed a strong network of local contacts across Japan that ensures a steady supply of properties they can buy. The company generates very attractive margins despite selling these properties at a meaningful discount to new-builds. Finally, second-hand home ownership in Japan is exceptionally low compared to other developed markets although this is changing and should provide a long-term tailwind for Katitas.

Locondo

0.7% of total assets

Locondo is an online shoe retailer. The domestic market for shoes is mature but quite large. Online penetration remains low and lags that of other categories such as apparels. A key reason for this is the high return rate as customers try multiple pairs before deciding on one that fits. As a result, companies need more inventory and larger storage facilities. Another reason that puts people off buying shoes online is shipping costs. With such high return rates, the prospect of paying twice for shipping is decidedly unattractive for customers. All these issues have meant that, globally, we see very few specialist, online shoe retailers. Locondo is trying to become one such specialist player. It has developed an in-house customer data analysis and inventory management system which allows the company to reduce return rates, maintain fewer distinct items for sale and keep costs low. This model has also allowed the company to offer free shipping both ways. It also gives customers a no-hassle, 21-day free return guarantee. The company is also helping offline retailers by taking care of their back-end fulfilment and online payments, thereby encouraging them to shift some of their sales online. Locondo is run by a young and dynamic management team led by the founder who previously worked as a retail consultant at McKinsey. The company is growing fast and over time, we believe it can emerge as a leader in this area.

Moneytree

0.3% of total assets

Moneytree is a small, unlisted fintech company founded in 2012 by the current president, an Australian who came to Japan as an exchange student over a decade ago. It provides PC and mobile based personal financial management tools. Beyond these, Moneytree also offers financial institutions with a suite of software products enabling them to aggregate and analyse vast amounts of customer financial data. These software packages run on Moneytree's in-house developed, proprietary artificial intelligence based decision engine and can be easily integrated with the existing IT systems at these financial institutions. Along with analysing customer data, the software also enables clients to perform a multitude of functions such as tracking cash flows in real-time, expense management and credit scoring. It has already built an impressive list of blue-chip clients and appears well placed to benefit from the rising adoption of fintech across the Japanese financial landscape.

Morpho

0.6% of total assets

Morpho researches, develops, and licenses image processing technologies. Whilst most of the business still comes from the legacy smartphone business, the new Network Service Division creates software with deep learning capabilities. This is sold to a variety of industries including the auto industry. In that area Morpho has struck a partnership with Denso to co-develop digital mirrors and to use its image stabilisation software and deep learning as part of Denso's future ADAS (Advanced Driver Assistance Systems) products. We believe that there is significant upside potential for a small company like Morpho to benefit from the rise of ADAS and autonomous vehicles as a key strategic partner of Denso which is one of the largest auto-parts suppliers in the world.

Tenpos Busters

0.4% of total assets

Tenpos Busters sells new and recycled kitchen equipment and operates a small number of specialist restaurants. The food service industry in Japan is huge and restaurant turnover tends to be very high. Tenpos has developed a unique business model where it takes advantage of the numerous restaurant closures annually to source kitchen equipment cheaply and then refurbishes it to a high standard across its 11 nationwide recycling centres. It then sells these refurbished items at an affordable price but still makes a high margin. Competition is local, and no other player matches Tenpos in its national scale and buying power. It also has a small but rapidly growing online sales channel. Tenpos has an entrepreneurial culture where staff promotions are merit based. An example is the current president who started as a front-line salesperson at the company but gained rapid promotion through good performance. The founder is the chairman who remains involved in the day-to-day operations and owns over half of the company so there is likely to be good alignment of management's interests with those of minority shareholders.

Portfolio Performance Attribution for the Year to 31 January 2018*

Computed relative to the comparative index†

Portfolio breakdown	Index asset allocation 31.01.17 %	Index asset allocation 31.01.18 %	Shin Nippon asset allocation 31.01.17 %	Shin Nippon asset allocation 31.01.18 %	Performance# Shin Nippon %	Performance# Index %	Contribution to relative return %	Contribution attributable to: Stock selection %	Contribution attributable to: Asset allocation %	Contribution attributable to: Gearing %
Consumer Discretionary	17.6	17.3	26.9	25.4	26.7	15.6	2.3	2.4	(0.1)	–
Consumer Staples	10.6	10.6	5.8	5.4	15.8	14.0	0.3	0.1	0.2	–
Energy	0.7	0.7	–	–	–	43.8	(0.1)	–	(0.1)	–
Financials	8.3	7.8	1.7	1.5	25.2	(1.3)	1.4	0.3	1.1	–
Healthcare	5.6	5.8	14.8	13.5	41.4	17.2	2.7	2.6	0.1	–
Industrials	23.8	24.8	23.6	24.0	56.0	25.8	5.2	5.3	(0.1)	–
Information Technology	11.8	12.3	24.1	27.5	44.8	28.8	4.9	3.4	1.5	–
Materials	10.7	10.6	–	–	–	21.2	(0.4)	–	(0.4)	–
Real Estate	10.2	9.2	2.7	2.3	22.0	(0.5)	1.8	0.6	1.2	–
Telecommunication Services	–	–	0.4	0.4	–	–	(0.2)	–	(0.2)	–
Utilities	0.7	0.9	–	–	–	1.4	0.2	–	0.2	–
Total (excluding gearing)	**100.0**	**100.0**	**100.0**	**100.0**	**39.6**	**17.0**	**19.3**	**15.4**	**3.4**	**–**
Impact of gearing					4.2		4.2			4.2
Total (including gearing)	**100.0**	**100.0**	**100.0**	**100.0**	**45.5**	**17.0**	**24.4**	**15.4**	**3.4**	**4.2**

Past performance is not a guide to future performance.

Source: Baillie Gifford/StatPro and relevant underlying index providers.

Contributions cannot be added together, as they are geometric; for example to calculate how a return of 45.5% against an index return of 17.0% translates into a relative return of 24.4%, divide the portfolio return of 145.5 by the index return of 117.0, subtract one and multiply by 100.

* The performance attribution table is based on total assets.

† The comparative index for the year to 31 January 2018 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.

See disclaimer on page 60 and the Glossary of Terms on page 61.

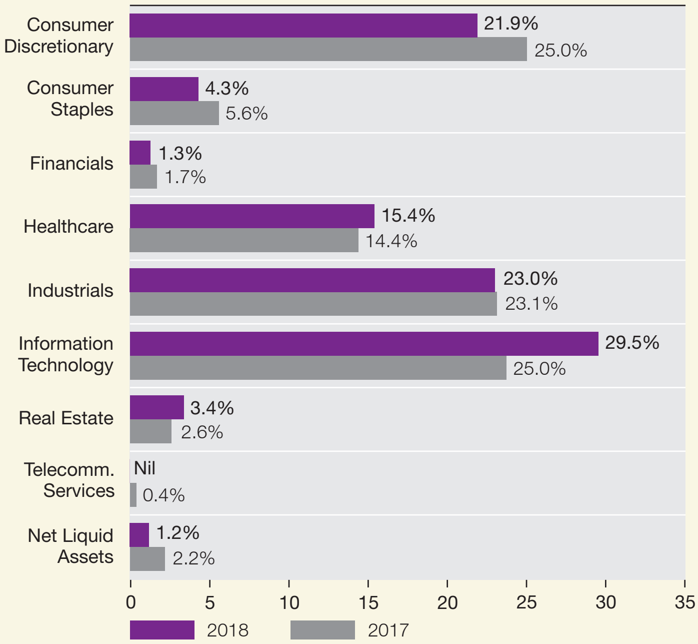
Investment Changes

	Valuation at 31 January 2017 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 January 2018 £'000
Equities:				
Consumer Discretionary	64,386	15,367	18,003	97,756
Consumer Staples	14,523	3,035	1,916	19,474
Financials	4,321	260	1,102	5,683
Healthcare	37,155	14,626	17,314	69,095
Industrials	59,443	9,937	34,259	103,639
Information Technology	64,183	34,731	33,769	132,683
Real Estate	6,716	6,437	2,434	15,587
Telecommunication Services	953	(543)	(410)	–
Total investments	**251,680**	**83,850**	**108,387**	**443,917**
Net liquid assets*	5,768	47	(443)	5,372
Total assets	**257,448**	**83,897**	**107,944**	**449,289**
Bank loans	(23,576)	(28,377)	4,076	(47,877)
Shareholders' Funds	**233,872**	**55,520**	**112,020**	**401,412**

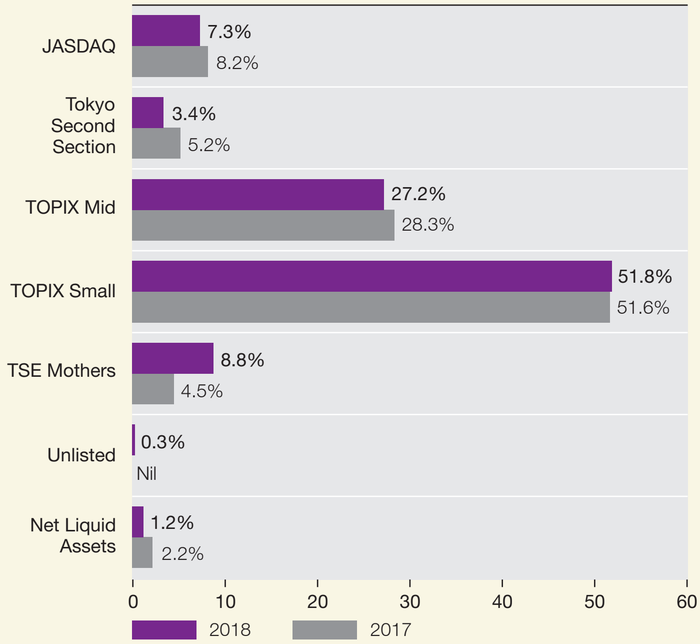
* See Glossary of Terms on page 61.

Distribution of Total Assets

Industry

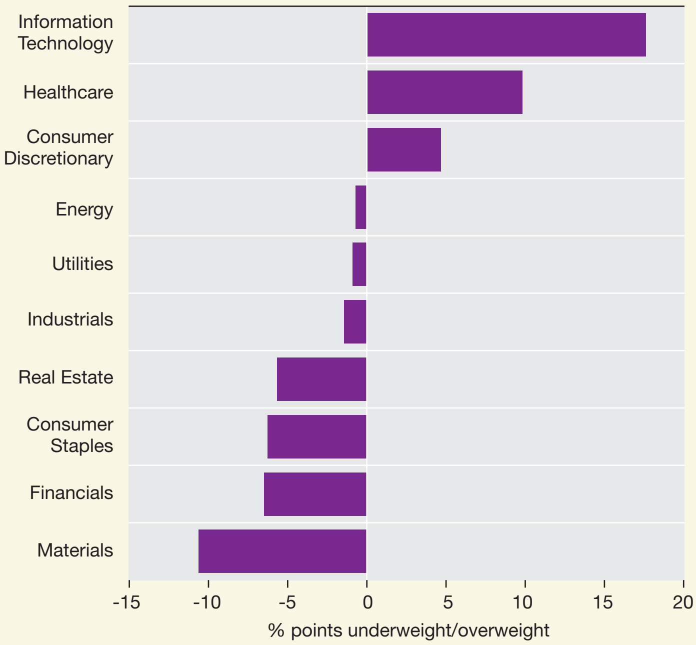


Listings

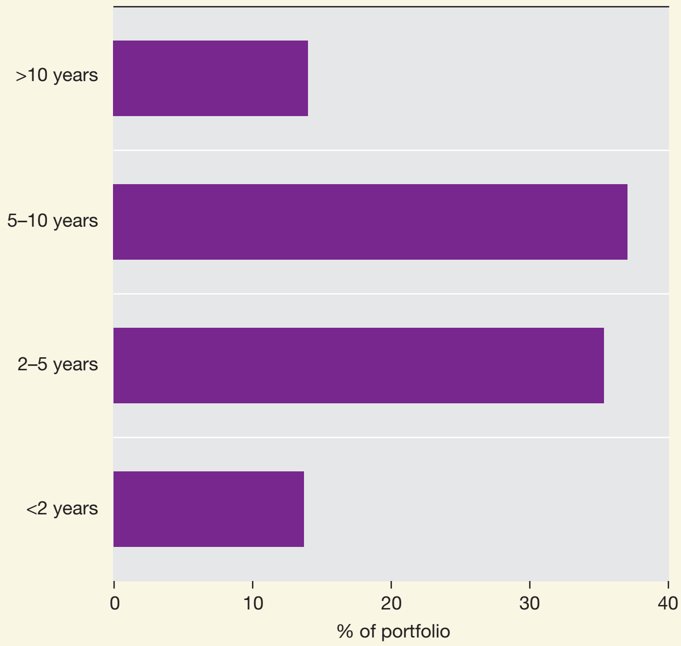


Portfolio Weightings*

Relative to comparative index



Holding Period



* Source: Baillie Gifford/StatPro and relevant underlying index providers. See disclaimer on page 60.

List of Investments at 31 January 2018

Name	Business	Value £'000	% of total assets	Absolute† performance %	2017 Value £'000
Outsourcing	Employment placement services	12,801	2.8	150.2	3,939
Istyle	Beauty product review website	12,515	2.8	30.2	6,517
Asahi Intecc	Specialist medical equipment	11,983	2.7	69.0	6,031
Nihon M&A Center	M&A advisory services	11,876	2.6	81.8	6,304
Optex	Infrared detection devices	11,402	2.5	143.7	3,513
MonotaRO	Online business supplies	10,919	2.4	6.7	7,618
Megachips	Electronic components	10,799	2.4	38.5	4,437
Start Today	Internet fashion retailer	10,165	2.3	39.1	6,982
Peptidream	Drug discovery and development platform	10,121	2.2	47.4	3,990
GMO Payment Gateway	Online payment processing	10,101	2.2	56.5	5,095
CyberAgent	Internet advertising and content	10,048	2.2	55.6	3,771
Nifco	Value-added plastic car parts	10,010	2.2	24.9	4,773
Yume No Machi	Online meal delivery service	9,917	2.2	102.8	6,834
Digital Garage	Internet business investor	9,864	2.2	60.6	2,993
Sanbio	Stem cell based stroke treatment	9,506	2.1	201.6	2,673
Noritsu Koki	Holding company with interests in biotech and agricultural products	9,475	2.1	171.6	3,397
Harmonic Drive	Robotic components	9,105	2.0	101.7	5,893
Horiba	Manufacturer of measuring instruments	8,603	1.9	9.4	3,879
IRISO Electronics	Specialist auto connectors	8,473	1.9	100.7	4,253
M3	Online medical services	7,989	1.8	20.6	5,729
Top 20		**205,672**	**45.5**		
Healios KK	Regenerative medicine	7,955	1.8	(2.3)	2,968
Shoei	Manufactures motor cycle helmets	7,924	1.8	79.9	3,278
Nippon Ceramic	Electronic component manufacturer	7,870	1.7	37.2	3,779
Lifull	Provides online property information	7,758	1.7	11.9	–
Sho-Bond	Infrastructure reconstruction	7,736	1.7	69.2	3,568
Seria	Discount retailer	7,500	1.7	54.9	4,565
Katitas	Real estate services	7,311	1.6	98.0	–
H.I.S.	Discount travel agency and theme parks	7,100	1.6	19.9	2,986
Broadleaf	Online platform for buying car parts	6,830	1.5	48.4	3,650
Nabtesco	Robotic components	6,828	1.5	62.2	4,008
WDB Holdings	Human resource services	6,774	1.5	168.0	1,726
Technopro Holdings	IT staffing	6,700	1.5	43.1	4,254
Pigeon	Baby care products	6,661	1.5	28.7	5,244
Sato Holdings	Barcode and RFID technology	6,601	1.5	34.8	3,158
Infomart Corp	Internet platform for restaurant supplies	6,553	1.5	11.8	5,057
Hoshizaki Electric	Commercial kitchen equipment	5,978	1.3	3.0	3,433
Daikyonishikawa	Automobile part manufacturer	5,646	1.3	11.8	5,467
Cocokara Fine	Drugstore chain	5,543	1.2	28.3	4,102
Mugen Estate	Real estate services	5,516	1.2	47.0	1,962
Nanocarrier	Biotech company	5,480	1.2	15.0	1,808
Bengo4.com	Online legal consultation	5,230	1.2	109.2	1,323
Toshiba Plant Systems and Services	Plant engineering company	5,226	1.2	17.7	4,835
Calbee	Branded snack foods	5,074	1.1	(3.6)	2,603
Hamakyorex	Third party logistics	4,760	1.1	60.9	2,999
SIIX Corp	Outsources overseas production	4,589	1.0	10.9	3,877
Nakanishi	Dental equipment	4,584	1.0	25.4	3,698
Zojirushi Corp	Kitchen appliance manufacturer	4,444	1.0	(15.8)	3,264
Jeol	Manufacturer of scientific equipment	4,306	1.0	6.9	2,960

Name	Business	Value £'000	% of total assets	Absolute† performance %	2017 Value £'000
Nikkiso	Industrial pumps and medical equipment	4,089	0.9	14.4	2,859
Poletowin Pitcrew	Game testing and internet monitoring	3,890	0.9	92.3	1,540
eGuarantee Inc	Guarantees trade receivables	3,864	0.9	32.9	2,692
OSG Corp	Manufactures machine tool equipment	3,559	0.8	9.7	3,302
Unipres	Manufacturer of automotive components	3,438	0.8	12.9	2,789
Locondo	E-commerce services provider	3,216	0.7	23.7	–
Aeon Delight	Shopping mall maintenance	3,117	0.7	13.6	2,525
Findex Inc	Healthcare software developer	3,081	0.7	(20.2)	1,795
DesignOne Japan	Online platform for small local businesses	2,947	0.7	(21.7)	1,725
Asics	Sports shoes and clothing	2,910	0.6	(24.6)	3,908
Takara Leben	Condominium builder	2,760	0.6	(28.0)	4,754
Crowdworks	Crowdsourcing services	2,636	0.6	19.0	1,685
Morpho	Image processing technologies	2,528	0.6	(12.0)	–
Gumi	Mobile gaming	2,428	0.5	(8.4)	–
Cosmos Pharmaceuticals	Drugstore chain	2,196	0.5	(14.4)	2,574
Brainpad	Business data analysis	1,958	0.4	10.2	1,777
Yonex	Sporting goods	1,840	0.4	(48.5)	4,175
Dream Incubator	Early stage business support	1,819	0.4	11.8	1,629
JP Holdings	Operates child-care facilities	1,744	0.4	12.6	1,560
Tenpos Busters	Refurbished kitchen equipment operator	1,677	0.4	32.0	-
Weathernews	Weather information services	1,660	0.4	(9.6)	1,881
Freakout Holdings	Digital marketing technology	1,639	0.4	(33.8)	–
Moneytree K.K. Class B Preferred[u]	AI based fintech platform	1,391	0.3	(15.8)	–
Torex Semiconductor	Semiconductor company	1,337	0.3	(4.6)	–
Cookpad	Recipe website	1,262	0.3	(41.4)	2,183
Sanwa	Online kitchen and bathroom supplies	782	0.2	(29.9)	1,127
Total investments		**443,917**	**98.8**		
Net liquid assets*		**5,372**	**1.2**		
Total assets		**449,289**	**100.0**		
Bank loans		**(47,877)**	**(10.7)**		
Shareholders' funds		**401,412**	**89.3**		

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 February 2017 to 31 January 2018.
Source: Baillie Gifford/StatPro and relevant underlying index data providers.
[u] Unlisted holding.
* See Glossary of Terms on page 61.

Past performance is not a guide to future performance.

Equity Portfolio by Investment Theme at 31 January 2018

Global Brands

Name	% of total assets
Asics	0.6
Calbee	1.1
Pigeon	1.5
Shoei	1.8
Yonex	0.4
Zojirushi Corp	1.0
Total	**6.4**

Healthcare

Name	% of total assets
Asahi Intecc	2.7
Cocokara Fine	1.2
Cosmos Pharmaceuticals	0.5
Findex	0.7
Healios KK	1.8
Nakanishi	1.0
Nanocarrier	1.2
Noritsu Koki	2.1
Peptidream	2.2
SanBio	2.1
WDB Holdings	1.5
Total	**17.0**

Niche Manufacturers

Name	% of total assets
Daikyonishikawa	1.3
Gumi	0.5
Harmonic Drive	2.0
Horiba	1.9
Hoshizaki Electric	1.3
IRISO Electronics	1.9
Jeol	1.0
Megachips	2.4
Morpho	0.6
Nabtesco	1.5
Nifco	2.2
Nikkiso	0.9
Nippon Ceramic	1.7
Optex	2.5
OSG Corp	0.8
Sato Holdings	1.5
Torex Semiconductor	0.3
Unipres	0.8
Total	**25.1**

Online Disruptors

Name	% of total assets
Bengo4.com	1.2
Brainpad	0.4
Broadleaf	1.5
Cookpad	0.3
Crowdworks	0.6
CyberAgent	2.2
DesignOne Japan	0.7
Digital Garage	2.2
Dream Incubator	0.4
Freakout Holdings	0.4
GMO Payment Gateway	2.2
Infomart Corp	1.5
Istyle	2.8
Lifull	1.7
Locondo	0.7
M3	1.8
Moneytree K.K. Class B Preferred	0.3
MonotaRO	2.4
Sanwa	0.2
Start Today	2.3
Weathernews	0.4
Yume No Machi	2.2
Total	**28.4**

Outsourcing/Services

Name	% of total assets
Aeon Delight	0.7
H.I.S.	1.6
Hamakyorex	1.1
JP Holdings	0.4
Nihon M&A Center	2.6
Outsourcing	2.8
Poletowin Pitcrew	0.9
Seria	1.7
Sho-Bond	1.7
SIIX Corp	1.0
Technopro Holdings	1.5
Tenpos Busters	0.4
Toshiba Plant Systems & Services	1.2
Total	**17.6**

Real Estate and Financials

Name	% of total assets
eGuarantee Inc	0.9
Katitas	1.6
Mugen Estate	1.2
Takara Leben	0.6
Total	**4.3**

Net liquid assets represent 1.2% of total assets. See Glossary of Terms on page 61.

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 # %
2008	56,518	11,354	45,164	145.2	129.3	(11.0)
2009	49,073	10,813	38,260	123.0	95.8	(22.1)
2010	51,486	7,917	43,569	140.1	115.3	(17.7)
2011	64,429	8,763	55,666	179.0	163.3	(8.8)
2012	64,362	9,557	54,805	176.2	167.3	(5.1)
2013	77,074	7,948	69,126	211.7	224.1	5.9
2014	133,828	19,867	113,961	310.4	328.0	5.7
2015	147,529	18,894	128,635	345.8	321.0	(7.2)
2016	182,817	19,427	163,390	432.3	448.0	3.6
2017	257,448	23,576	233,872	578.8	598.0	3.3
2018	**449,289**	**47,877**	**401,412**	**845.1**	**922.0**	**9.1**

* 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. See Glossary of Terms on page 61.

(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. See Glossary of Terms on page 61.

Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers. See disclaimer on page 60.

Revenue

Year to 31 January	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings/(loss) per ordinary share p	Ongoing charges ‡ %
2008	1,119	4	0.01	1.44
2009	1,358	481	1.54	1.47
2010	868	24	0.08	1.55
2011	1,108	114	0.37	1.50
2012	1,219	98	0.32	1.49
2013	1,165	(22)	(0.07)	1.53
2014	1,259	(239)	(0.69)	1.19
2015	1,554	(374)	(1.01)	1.14
2016	1,798	(290)	(0.78)	1.02
2017	2,912	101	0.26	0.96
2018	**3,496**	**(227)**	**(0.53)**	**0.89**

Gearing Ratios

Year to 31 January	Gearing ¶ %	Potential gearing § %
2008	17	25
2009	18	28
2010	17	18
2011	13	16
2012	14	17
2013	10	11
2014	11	17
2015	9	15
2016	9	12
2017	8	10
2018	**11**	**12**

‡ Calculated as total operating costs divided by average net asset value (with borrowings at fair value). See Glossary of Terms on page 61. 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. See Glossary of Terms on page 61.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds. See Glossary of Terms on page 61.

Source: Baillie Gifford.

Cumulative Performance (taking 2008 as 100)

At 31 January	Net asset value per share ^	Share price	Comparative index **
2008	100	100	100
2009	85	74	115
2010	96	89	113
2011	123	126	135
2012	121	129	135
2013	146	173	140
2014	214	254	164
2015	238	248	186
2016	298	347	206
2017	399	463	278
2018	**582**	**713**	**326**
Compound annual returns			
5 year	31.9%	32.7%	18.4%
10 year	19.3%	21.7%	12.5%

^ Net asset value per ordinary share has been calculated after deducting borrowings at par value. See Glossary of Terms on page 61.

** 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.

Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers. See disclaimer on page 60.

Past performance is not a guide to future performance.

Directors and Management

Members of the Board come from a broad variety of backgrounds. The Board can draw on a very extensive pool of knowledge and experience.

Directors

M Neil Donaldson

Neil Donaldson was appointed a Director in 2014 and became Chairman in 2015. Mr Donaldson has been chairman of James Donaldson & Sons Limited, an independent Fife based timber merchants, since 1985. He is also deputy chairman of the R&A general committee. Formerly the chairman of Securities Trust of Scotland, he served on its board from 2005 until 2017 and has more than 17 years' experience of the investment trust sector. He also holds appointments with several charities.

P Francis Charig

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

Iain A McLaren CA

Iain McLaren was appointed a Director in 2009 and is Chairman of the Audit Committee. He has extensive experience of financial reporting, auditing, corporate governance and general management. He retired from KPMG in 2008 having been a partner for 27 years and was senior partner in Scotland from 1999 to 2004. He is currently senior independent director and chairman of the audit committee of Cairn Energy Plc. He is also chairman of F&C UK High Income Trust Plc, non-executive director of Edinburgh Dragon Trust plc and Ecofin Global Utilities and Infrastructure Trust plc and a director of Jadestone Energy.

Merryn R Somerset Webb

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

Simon CN Somerville

Simon Somerville was appointed a Director in 2010. He has over 27 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 was Strategy Head of Japan Equities. He is currently Portfolio Manager with responsibility for Japan at Marathon Asset Management.

The Directors listed above were in office during the year to 31 January 2018 and remained in office as at 26 March 2018.

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 eight 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 £177 billion at 22 March 2018. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 43 partners and a staff of around 1,000.

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

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

Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year to 31 January 2018.

Corporate Governance

The Corporate Governance Report is set out on pages 27 to 29 and forms part of this Report.

Manager and Company Secretaries

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed as the Company's Alternative Investment Fund Manager ('AIFM') and Company Secretaries. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co.

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 is 0.95% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remaining net assets, calculated and payable quarterly.

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

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 2017, 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 AIFM must appoint a Depositary to the Company. It is anticipated that on 3 April 2018, the appointed Depositary will change from BNY Mellon Trust & Depositary (UK) Limited to The Bank of New York Mellon (International) Limited following an internal reorganisation at The Bank of New York.

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. Following the internal reorganisation at The Bank of New York, the custody function will also be undertaken by The Bank of New York Mellon (International) Limited ('the Custodian') (having previously been delegated to The Bank of New York Mellon SA/NV).

Directors

Information about the Directors, including their relevant experience, can be found on page 22.

Mr PF Charig and Mr IA McLaren, having served for more than nine years, are subject to annual re-election and will therefore be retiring and offering themselves for re-election at the Annual General Meeting. Both Mr PF Charig and Mr IA McLaren are intending to stand down from the Board at the Annual General Meeting to be held in 2019.

Mr MN Donaldson and Mrs MR Somerset Webb, having served for three years since they were last elected, will be retiring and offering themselves for re-election.

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

Director Indemnification and Insurance

The Company has entered into qualifying third party 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 to 31 January 2018 and up to the date of approval of this report.

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. Consequently the Company will not pay a dividend.

Share Capital

Capital Structure

The Company's capital structure consists of 47,485,497 ordinary shares of 10 pence each at 31 January 2018 (2017 – 40,395,497 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 54.

Major Interests in the Company's Shares

The Company has received notification of the following interests in the voting rights of the Company as at 31 January 2018.

Name	No of ordinary 10p shares held at 31 January 2018	% of issue
South Yorkshire Pensions Authority (direct)	1,300,000	2.7

There have been no changes to the major interests in the Company's shares intimated up to 22 March 2018.

Annual General Meeting

Subdivision of Ordinary Shares

Over the financial year ended 31 January 2018, the price of the Company's existing ordinary shares of 10 pence each has risen to the point where the closing mid-market price on 22 March 2018 (being the latest practicable date prior to publication of this document) was £9.46. To assist monthly savers and in order to improve the liquidity of the Company's shares, the Directors believe that it is appropriate to propose the subdivision of each of the existing ordinary shares into 5 New Ordinary Shares of 2 pence each (the 'New Ordinary Shares') pursuant to Resolution 10 at the Annual General Meeting (the 'Share Split'). Following the Share Split, each shareholder will hold 5 New Ordinary Shares for each existing ordinary share they held immediately prior to the Share Split. The Share Split will increase the number of ordinary shares the Company has in issue, but it is expected that there will be a corresponding reduction in the net asset value and market price of the New Ordinary Shares, reflecting the fact that Shareholders will own 5 times as many New Ordinary Shares. The Directors believe that this will benefit shareholders by improving the liquidity of their assets.

The Share Split requires the approval of the shareholders and, accordingly, Resolution 10 seeks such approval. The Share Split is conditional on the New Ordinary Shares being admitted to the Official List of the UKLA and to trading on the London Stock Exchange's market for listed securities. The New Ordinary Shares will rank pari passu with each other and will carry the same rights and be subject to the same restrictions as the existing ordinary shares.

The Company's issued ordinary share capital as at 22 March 2018 was £4,866,049.70 divided into 48,660,497 existing ordinary shares of 10 pence each. If the Share Split is applied to the existing ordinary share capital, the total value of the share capital will remain at £4,866,049.70 but will be divided into 243,302,485 New Ordinary Shares of 2 pence each. A holding of New Ordinary Shares following the Share Split will represent the same proportion of the issued ordinary share capital of the Company as the corresponding holding of existing ordinary shares currently in issue.

The New Ordinary Shares may be held in certificated or uncertificated form. Following the Share Split becoming effective, share certificates in respect of the existing ordinary shares will cease to be valid and will be cancelled. New certificates in respect of the New Ordinary Shares will be issued to those shareholders who hold their existing ordinary shares in certificated form, and are expected to be dispatched by 25 May 2018. No temporary documents of title will be issued. Transfers of New Ordinary Shares between 21 May 2018 and the dispatch of new certificates will be certified against the Company's register of members held by Computershare. CREST accounts are expected to be credited on 21 May 2018.

Applications will be made for admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange's market for listed securities. If the applications are accepted, it is proposed that the last day of dealings in the existing ordinary shares will be 18 May 2018 and the effective date for dealings to commence in New Ordinary Shares will be on 21 May 2018. The Share Split will not itself give rise to any liability to UK income tax (or corporation tax on income) for shareholders. For the purposes of UK capital gains tax and corporation tax on chargeable gains, the receipt of the New Ordinary Shares from the Share Split will be a reorganisation of the share capital of the Company. Accordingly, the shareholder's holding of New Ordinary Shares will be treated as the same asset as the shareholder's holding of existing ordinary shares and as having been acquired at the same time, and for the same consideration, as that holding of existing ordinary shares.

If Resolution 10 is passed, the Share Split will become effective on admission of the New Ordinary Shares to the Official List, which is expected to be at 8.00am on 21 May 2018.

Share Issuance Authority

At the last Annual General Meeting, the Directors were granted authority to issue shares up to an aggregate nominal amount of £1,367,349.90, 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 £410,204.90.

Following strong demand for the Company's shares, the Company held a General Meeting on 13 December 2017 and a special resolution was passed giving the Directors authority to issue 4,468,049 shares on a non pre-emptive basis representing 10% of the issued share capital of the Company as at 14 November 2017.

In response to continued demand for the Company's shares, a further General Meeting was held on 12 March 2018 and a special resolution was passed giving the Directors authority to issue 4,798,549 shares on a non pre-emptive basis representing 10% of the issued share capital of the Company as at 12 February 2018. This authority will expire at the conclusion of the Annual General Meeting to be held on 18 May 2018.

Resolution 11 in the Notice of Annual General Meeting seeks a general authority for the Directors to issue ordinary shares up to an aggregate nominal amount of £1,622,016.50. This amount represents 33.33% of the Company's total ordinary share capital in issue at 22 March 2018 and meets institutional guidelines. No issue of ordinary shares will be made pursuant to the authorisation in Resolution 11 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Resolution 12, 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 £486,604.90 (representing 10% of the issued ordinary share capital of the Company as at 22 March 2018). The authorities sought in Resolutions 11 and 12 will continue until the conclusion of the Annual General Meeting to be held in 2019 or on the expiry of 15 months from the passing of the resolutions, if earlier.

Such authorities will only be used to issue shares or sell shares from treasury at a premium to net asset value and only when the Directors believe that it would be in the best interests of the Company to do so. The Directors believe that the ability to buy-back shares at a discount and re-sell them or issue new shares at a premium are useful tools in smoothing supply and demand. During the year to 31 January 2018 the Company issued 7,090,000 shares on a non pre-emptive basis at a premium to net asset value on 62 separate occasions at an average price of 778.2 pence per share raising proceeds of £55,789,000. Between 1 February and 22 March 2018 the Company issued a further 1,175,000 shares raising proceeds of £10,808,000.

No shares were held in treasury as at 22 March 2018.

Market Purchases of Own Shares

At the last Annual General Meeting, the Company was granted authority to purchase up to 6,148,972 ordinary shares (equivalent to 14.99% of its issued share capital), such authority to expire at the Annual General Meeting to be held on 18 May 2018. The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to make market purchases of ordinary shares up to an amount 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 2019.

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; and

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

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

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

(b) cancel such shares (or any of them).

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

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

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

(i) 5% above the average closing price on the London Stock Exchange of an ordinary share over the 5 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 the nominal value of an ordinary 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 13 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.

Directors' Fees Limit

The Company's Articles of Association provide that Directors' fees may not exceed £150,000 per annum in aggregate, or such larger amount as may be agreed by the Company by ordinary resolution. The Board is seeking shareholders' approval at the forthcoming Annual General Meeting to increase the aggregate annual limit, which has not changed since 2009, to £200,000 to accommodate the possibility of a temporary increase in the number of Directors as a result of Board refreshment and with a view to creating suitable headroom for future increases in fee levels. Your attention is drawn to Resolution 9 in the Notice of Annual General Meeting on page 53.

Resolutions

Resolutions 9 and 10 comprise the special business to be proposed at the Annual General Meeting and all the remaining resolutions comprise the ordinary business.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank borrowings and debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 17 to the Financial Statements.

Future Developments of the Company
The outlook for the Company for the next 12 months as set out in the Managers' Report on pages 10 and 11.

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
Following the conclusion of the formal audit tender process held during the financial year ending 31 January 2017, the proposed appointment of KPMG LLP as Auditor was approved by shareholders at the Annual General Meeting held on 18 May 2017. KPMG 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 Sheet Events
The Directors confirm that there have been no post Balance Sheet events up to 26 March 2018.

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
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.

Criminal Finances Act 2017
The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

Recommendation
The Directors consider each resolution being proposed at the Annual General Meeting to be in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of them, as they intend to do where possible in respect of their own beneficial holdings of shares which amount in aggregate to 35,873 shares, representing approximately 0.07% of the current issued share capital of the Company.

On behalf of the Board
M Neil Donaldson
Chairman
26 March 2018

Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2016 UK Corporate Governance Code, (the 'Code') which can be found at **www.frc.org.uk**, and the principles of the Association of Investment Companies ('AIC') Code of Corporate Governance were applied throughout the financial year. The AIC Code provides a framework of best practice for investment companies and can be found at **www.theaic.co.uk**.

Compliance

The Board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code and the recommendations of the AIC Code except that there is no designated senior independent director. The Directors do not believe that it is necessary to have a separate senior independent director due to the small size of the Board. Shareholders may address their concerns to any Board member. The Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. Given that the Company is an externally managed investment trust, the Board considers these provisions are not relevant to the Company (the need for an internal audit function specific to the Company has been addressed on page 30).

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.

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

The Directors believe that the Board has a balance of skills and experience that enable it to provide effective strategic leadership and proper governance of the Company. Information about the Directors, including their relevant experience, can be found on page 22.

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. Both Mr PF Charig and Mr IA McLaren are intending to stand down from the Board at the Annual General Meeting to be held in 2019. The recruitment process to identify suitable candidates for their replacement has commenced.

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

Appointments

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for inspection on request.

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

Independence of Directors

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

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

Mr PF Charig and Mr IA McLaren have served on the Board for more than nine years. The Board believes strongly that Mr PF Charig's and Mr IA McLaren's independence and contribution to the Board has not been compromised by their length of service and that this has been evidenced by their actions and decisions. Following a formal performance evaluation on 31 January 2018, the Board believes that they continue to be independent. The Board considers that none of Mr PF Charig's or Mr IA McLaren's other commitments, as set out on page 22 of this report, interfere with the discharge of their duties to the Company and the Board is satisfied that they are capable of devoting sufficient time to the Company.

Meetings

There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing, revenue budgets, dividend policy and communication with shareholders. The Board considers that it meets sufficiently regularly to discharge its duties effectively.

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**5**	**2**	**1**
MN Donaldson	5	2	1
PF Charig	5	2	1
IA McLaren	5	2	1
MR Somerset Webb	5	2	1
SCN Somerville	5	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. The Annual General Meeting was attended by all the Directors.

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 for its diversity policy to include diversity targets.

The Committee's terms of reference are available on request from the Company and on the Company's website: **www.shinnippon.co.uk**.

Performance Evaluation

An appraisal of the Chairman, each Director and a performance evaluation and review of the Board as a whole and its Committees was carried out on 31 January 2018. The Chairman and each Director completed a performance evaluation questionnaire. Each Director had an interview with the Chairman and the Directors reviewed the Chairman's performance.

The appraisals and evaluations considered amongst other criteria the balance of skills of the Board, training and development requirements, the contribution of individual Directors and the overall effectiveness of the Board and its Committees. Following this process it was concluded that the performance of each Director, the Chairman, the Board and its Committees continues to be effective and each Director remains committed to the Company.

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

Induction and Training

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

Remuneration

As all the Directors are non-executive, there is no requirement for a separate Remuneration Committee. Directors' fees are considered by the Board as a whole within the limits approved by shareholders. The Company's policy on remuneration is set out in the Directors' Remuneration Report on pages 32 and 33.

Audit Committee

The report of the Audit Committee is set out on pages 30 and 31.

Internal Controls and Risk Management

The Directors acknowledge their responsibility for the Company's risk management and internal control systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

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

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

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

These procedures ensure that consideration is given regularly to the nature and extent of risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage these risks.

The Directors confirm that they have reviewed the effectiveness of the Company's risk management and internal controls systems, which accord with the FRC 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014, and they have procedures in place to review their effectiveness on a regular basis. No significant weaknesses were identified in the year under review and up to the date of this Report.

The Board confirms that these procedures have been in place throughout the Company's financial year and continue to be in place up to the date of approval of this Report.

To comply with the Alternative Investment Fund Managers Directive, BNY Mellon Trust & Depositary (UK) Limited acted as the Company's Depositary for the period up to the date of this report (see page 23) 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. For the period up to the date of this report the custody function was delegated to The Bank of New York Mellon SA/NV. The Custodian prepares reports on its key controls and safeguards which is independently reviewed by KPMG LLP. The reports are reviewed by Baillie Gifford's Business Risk Department and a summary of the key points is reported to the Audit Committee and any concerns investigated.

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 60), are monitored and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables in the portfolio. Exceptions from limits monitoring and stress testing undertaken by Baillie Gifford's Business Risk Department are escalated to the AIFM and reported to the Board along with remedial measures being taken.

Going Concern

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

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

Accordingly, the Financial Statements have been prepared on the going concern basis as it is the Directors' opinion, having assessed the principal risks and other matters set out in the Viability Statement on pages 8 and 9, that the Company will continue in operational existence for a period of at least twelve months from the date of approval of these Financial Statements.

Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Investment Manager meets regularly with shareholders and their representatives and reports to the Board. The Company broker and the Managers' sales team also have regular contact with current and potential shareholders. The Chairman and Directors are available to meet with shareholders as appropriate. Shareholders wishing to communicate with any members of the Board may do so by writing to them at the Company's registered office or through the Company's broker, Panmure Gordon & Co (see contact details on back cover).

The Company's Annual General Meeting provides a forum for communication with all shareholders. The level of proxies lodged for each resolution is announced at the meeting and is published at **www.shinnippon.co.uk** subsequent to the meeting. The notice period for the Annual General Meeting is at least twenty working days.

Shareholders and potential investors may obtain up-to-date information on the Company at **www.shinnippon.co.uk**.

Corporate Governance and Stewardship

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

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

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

On behalf of the Board
M Neil Donaldson
Chairman
26 March 2018

Audit Committee Report

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

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

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

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

Main Activities of the Committee

The Committee met twice during the year and the external Auditor attended both meetings (PricewaterhouseCoopers LLP attended the first meeting held in the year and, following its appointment on 18 May 2017, KPMG LLP attended the second meeting). Baillie Gifford & Co's Internal Audit and Compliance Departments and the AIFM's permanent risk function provided reports on their monitoring programmes for these meetings.

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

— The preliminary results announcement and the Annual and Interim Reports;

— The Company's accounting policies and practices;

— The regulatory changes impacting the Company;

— The fairness, balance and understandability of the Annual Report and Financial Statements and whether it provided the information necessary for shareholders to assess the Company's performance, business model and strategy;

— The effectiveness of the Company's internal control environment;

— Reappointment, remuneration and engagement letter of the external Auditor;

— Whether the audit services contract should be put out to tender;

— The policy on the engagement of the external Auditor to supply non-audit services;

— The independence and objectivity of the external Auditor and the effectiveness of the external audit process;

— 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 98.8% of total assets.

The majority 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 the recording and pricing of investments.

The value of all the investments as at 31 January 2018 were agreed to external price sources and the portfolio holdings agreed to confirmations from the Company's Custodian.

The Managers and Auditor confirmed to the Committee that they were not aware of any material misstatements in the context of the Financial Statements as a whole and that the Financial Statements are in accordance with applicable law and accounting standards.

Internal Controls and Risk Management

The Committee reviewed the effectiveness of the Company's risk management and internal controls systems as described on pages 28 and 29. No significant weaknesses were identified in the year under review.

External Auditor

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

— The audit plan for the current year;

— A report from the Auditor describing their arrangements to manage auditor independence and received confirmation of their independence; and

— The extent of non-audit services provided by the external Auditor. There were no non-audit fees for the year to 31 January 2018 (2017 – nil).

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

— The Auditor's fulfilment of the agreed audit plan;

— Feedback from the Secretaries on the performance of the audit team; and

— The Audit Quality Inspection Report from the FRC.

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

— The Auditor's engagement letter;

— The Auditor's proposed audit plan;

— The audit fee; and

— A report from the Auditor on the conclusion of the audit.

The audit partner responsible for the audit will be 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. Mr Waterson, the current partner, will continue as audit partner only until the conclusion of the 2022 audit.

KPMG 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.

The audit services contract was put out to tender during the year to 31 January 2017 (see page 26).

Having carried out the review described above, the Committee is satisfied that the Auditor remains independent and effective for the purposes of this year's audit.

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

Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 34 to 38.

On behalf of the Board
M Neil Donaldson
Chairman
26 March 2018

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 2017. No changes are proposed to the policy.

The Board reviewed the level of fees during the year and it was agreed that there would be no change to Directors' fees. The Chairman's fee was last increased on 1 February 2016 and Directors' fees were last increased on 1 February 2014.

Directors' Remuneration Policy

The Board is composed wholly of non-executive Directors, none of whom has a service contract with the Company. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co Limited, the Company Secretaries, provides comparative information when the Board considers the level of Directors' fees.

The Board's policy is that the remuneration of Directors should be set at a reasonable level that is commensurate with the duties and responsibilities of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. The Board believes that the fees paid to the Directors should reflect the experience of the Board as a whole, be fair and should take account of the level of fees paid by comparable investment trusts. Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Board's policy on remuneration.

Non-executive Directors are not eligible for any other remuneration or benefits apart from the reimbursement of allowable expenses. There are no performance conditions relating to Directors' fees and there are no long term incentive schemes or pension schemes. No compensation is payable on loss of office.

Limit on Directors' Remuneration

The fees for the non-executive Directors are payable six monthly in arrears and are determined within the limit set out in the Company's Articles of Association which is currently £150,000 in aggregate. Any change to this limit requires shareholder approval. The Board is seeking shareholders' approval at the forthcoming Annual General Meeting to increase the aggregate annual limit, which has not changed since 2009, to £200,000 to accommodate the possibility of a temporary increase in the number of Directors as a result of Board refreshment and with a view to creating suitable headroom for future increases in fee levels. Your attention is drawn to Resolution 9 in the Notice of Annual General Meeting on page 53.

The basic and additional fees payable to Directors in respect of the year ended 31 January 2018 and the fees payable in respect of the year ending 31 January 2019 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 2019 £	Fees as at 31 Jan 2018 £
Chairman's fee	31,500	31,500
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 (see 'Limit on Directors' Remuneration' above)	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 Auditors to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on page 35.

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	2018 Fees £	2018 Taxable benefits* £	2018 Total £	2017 Fees £	2017 Taxable benefits* £	2017 Total £
MN Donaldson (Chairman)	31,500	–	31,500	31,500	230	**31,730**
PF Charig	21,000	1,401	22,401	21,000	2,322	**23,322**
IA McLaren	23,500	–	23,500	23,500	38	**23,538**
MR Somerset Webb	21,000	–	21,000	21,000	554	**21,554**
SCN Somerville	21,000	1,547	22,547	21,000	1,524	**22,524**
	118,000	**2,948**	**120,948**	**118,000**	**4,668**	**122,668**

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

Directors' Interests (audited)

Name	Nature of interest	Ordinary 10p shares held at 31 Jan 2018	Ordinary 10p shares held at 31 Jan 2017
MN Donaldson	Beneficial	11,987	7,866
PF Charig	–	–	–
IA McLaren	Beneficial	10,000	10,000
MR Somerset Webb	Beneficial	3,557	3,557
SCN Somerville	Beneficial	10,000	10,000

The Directors are not required to hold shares in the Company. The Directors at the year end, and their interests in the Company, were as shown above. Following the year end Mr MN Donaldson purchased a further 329 shares. There have been no further changes intimated in the Directors' interests up to 22 March 2018.

Statement of Voting at Annual General Meeting

At the last Annual General Meeting, of the proxy votes received in respect of the Directors' Remuneration Report, 99.3% were in favour, 0.4% were against and votes withheld were 0.3%. At the last Annual General Meeting at which the Directors' Remuneration Policy was considered (May 2017), 99.3% were in favour, 0.5% 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. The Directors' Remuneration for the year is set out on the previous page. There were no distributions to shareholders by way of dividend or share repurchases during the year (2017 – none).

Directors' Service Details

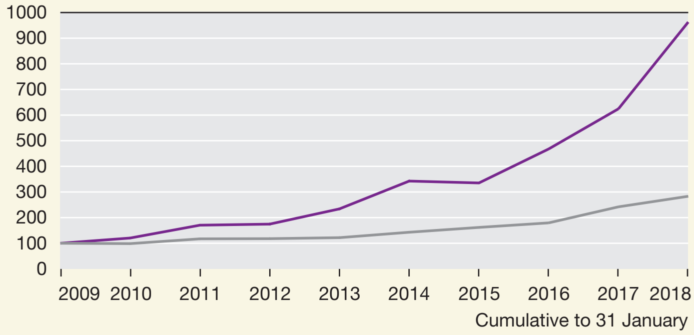
Name	Date of appointment	Due date for re-election
MN Donaldson	1 August 2014	AGM in 2018
PF Charig	25 February 2005	AGM in 2018
IA McLaren	16 January 2009	AGM in 2018
MR Somerset Webb	4 October 2011	AGM in 2018
SCN Somerville	17 June 2010	AGM in 2020

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/Baillie Gifford and relevant underlying index providers. See disclaimer on page 60.

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 32 and 33 was approved by the Board of Directors and signed on its behalf on 26 March 2018.

M Neil Donaldson
Chairman

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and 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 are required to prepare the Financial Statements in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 its profit or loss 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 estimates that are reasonable and prudent;

— state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;

— assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

— use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in Respect of the Annual Financial Report

We confirm that to the best of our knowledge:

— the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

— the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board
M Neil Donaldson
Chairman
26 March 2018

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.

KPMG

Independent auditor's report

to the members of Baillie Gifford Shin Nippon PLC

1. Our opinion is unmodified

We have audited the Financial Statements of Baillie Gifford Shin Nippon PLC ("the Company") for the year ended 31 January 2018 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes, including the accounting policies in note 1.

In our opinion the Financial Statements:

— give a true and fair view of the state of Company's affairs as at 31 January 2018 and of its return for the year then ended;

— have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as Auditor by the shareholders on 18 May 2017. The period of total uninterrupted engagement is for the financial year ended 31 January 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Financial Statements as a whole	**£4.5m** 1% of Total Assets
Risks of material misstatement	
Recurring risks	Carrying value of listed equity investments

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

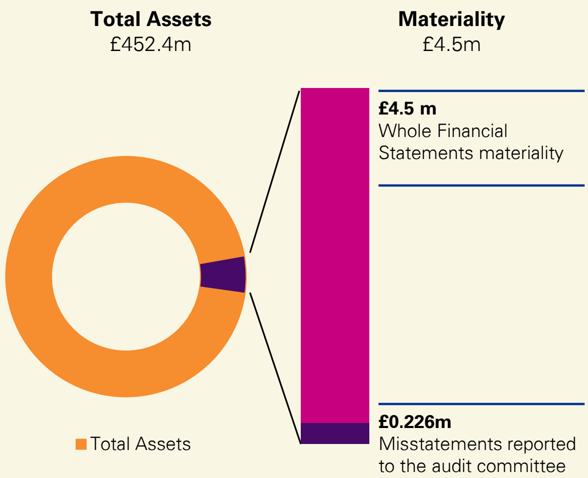
	The risk	Our response
Carrying Value of Listed Equity Investments (£442.5 million; 2017: £251.7 million) *Refer to page 30 (Audit Committee Report), page 43 (accounting policy) and page 45 (financial disclosures)*	**Low risk, high value:** The Company's portfolio of listed equity investments makes up 97.8% of the Company's total assets (by value) and is one of the key drivers of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, listed investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: — **Control design:** Documenting and assessing the processes in place to record investment transactions and to value the portfolio. — **Tests of Detail:** Agreeing the valuation of 100 per cent of investments in the portfolio to externally quoted prices; and — **Enquiry of custodians:** Agreeing 100 per cent of investment holdings in the portfolio to independently received third party confirmations from investment custodians. **Our results** — We found the carrying amount of listed equity investments to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £4.5m, determined with reference to a benchmark of total assets, of which it represents 1%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £226,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at Baillie Gifford & Co's office in Edinburgh.



4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the Financial Statements; or
- if the related statement under the Listing Rules set out on page 29 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our Financial Statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on pages 8 and 9 that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement.

We have nothing to report in this respect.

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Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our Financial Statements audit and the Directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

- 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; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 34, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Financial Statements from our sector experience and through discussion with the Directors, the manager and the administrator (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the Financial Statements including financial reporting (including related company legislation) as well as the company's qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related Financial Statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Waterson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

26 March 2018

KPMG

Income Statement

For the year ended 31 January

	Notes	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000	2017 Revenue £'000	2017 Capital £'000	2017 Total £'000
Gains on investments*	8	–	108,387	**108,387**	–	58,830	**58,830**
Currency gains/(losses)†	13	–	3,591	**3,591**	–	(3,072)	**(3,072)**
Income	2	3,496	–	**3,496**	2,912	–	**2,912**
Investment management fee	3	(2,131)	–	**(2,131)**	(1,590)	–	**(1,590)**
Other administrative expenses	4	(510)	–	**(510)**	(386)	–	**(386)**
Net return before finance costs and taxation		855	111,978	**112,833**	936	55,758	**56,694**
Finance costs of borrowings	5	(732)	–	**(732)**	(544)	–	**(544)**
Net return on ordinary activities before taxation		123	111,978	**112,101**	392	55,758	**56,150**
Tax on ordinary activities	6	(350)	–	**(350)**	(291)	–	**(291)**
Net return on ordinary activities after taxation		**(227)**	**111,978**	**111,751**	**101**	**55,758**	**55,859**
Net return per ordinary share	7	**(0.53p)**	**261.52p**	**260.99p**	**0.26p**	**142.88p**	**143.14p**

* 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 supplementary revenue and capital return columns 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 Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

The accompanying notes on pages 43 to 52 are an integral part of the Financial Statements.

Balance Sheet

As at 31 January

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Investments held at fair value through profit or loss	8		443,917		251,680
Current assets					
Debtors	9	2,833		801	
Cash and cash equivalents	17	5,668		5,520	
		8,501		6,321	
Creditors					
Amounts falling due within one year	10	(3,129)		(553)	
Net current assets			5,372		5,768
Total assets less current liabilities			449,289		257,448
Creditors					
Amounts falling due after more than one year	11		(47,877)		(23,576)
Net assets			**401,412**		**233,872**
Capital and reserves					
Share capital	12		4,749		4,040
Share premium account	13		95,174		40,094
Capital redemption reserve	13		21,521		21,521
Capital reserve	13		285,451		173,473
Revenue reserve	13		(5,483)		(5,256)
Shareholders' funds			**401,412**		**233,872**
Net asset value per ordinary share					
(after deducting borrowings at book value)	14		**845.3p**		**579.0p**

The Financial Statements of Baillie Gifford Shin Nippon PLC (Company Registration Number SC093345) on pages 39 to 52 were approved and authorised for issue by the Board and were signed on its behalf on 26 March 2018.

M Neil Donaldson
Chairman

The accompanying notes on pages 43 to 52 are an integral part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 January 2018

	Notes	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 2017		4,040	40,094	21,521	173,473	(5,256)	**233,872**
Ordinary shares issued	13	709	55,080	–	–	–	**55,789**
Net return on ordinary activities after taxation	13	–	–	–	111,978	(227)	**111,751**
Shareholders' funds at 31 January 2018		**4,749**	**95,174**	**21,521**	**285,451**	**(5,483)**	**401,412**

For the year ended 31 January 2017

	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 2016	3,778	25,733	21,521	117,715	(5,357)	**163,390**
Ordinary shares issued	262	14,361	–	–	–	**14,623**
Net return on ordinary activities after taxation	–	–	–	55,758	101	**55,859**
Shareholders' funds at 31 January 2017	**4,040**	**40,094**	**21,521**	**173,473**	**(5,256)**	**233,872**

The accompanying notes on pages 43 to 52 are an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 January

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Cash flows from operating activities				
Net return on ordinary activities before taxation	112,101		56,150	
Net gains on investments	(108,387)		(58,830)	
Currency (gains)/losses	(3,591)		3,072	
Finance costs of borrowings	732		544	
Overseas withholding tax	(328)		(252)	
Increase in debtors, accrued income and prepaid expenses	(227)		(379)	
Increase in creditors and prepaid income	253		102	
Cash inflow from operations		553		407
Interest paid		(736)		(509)
Net cash outflow from operating activities		(183)		(102)
Cash flows from investing activities				
Acquisitions of investments	(107,413)		(43,987)	
Disposals of investments	25,850		28,822	
Net cash outflow from investing activities		(81,563)		(15,165)
Shares issued	53,950		14,623	
Bank loans drawn down	28,429		–	
Net cash inflow from financing activities		82,379		14,623
Increase/(decrease) in cash and cash equivalents		633		(644)
Exchange movements		(485)		1,058
Cash and cash equivalents at 1 February		5,520		5,106
Cash and cash equivalents at 31 January*		**5,668**		**5,520**

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

The accompanying notes on pages 43 to 52 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 2018 have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' on the basis of the accounting policies set out below which are unchanged from the prior year and have been applied consistently.

(a) Basis of Accounting

All of the Company's operations are of a continuing nature and the Financial Statements are prepared on a going concern basis under the historical cost convention, modified to include the revaluation of fixed asset investments and derivative financial instruments at fair value through profit or loss, and on the assumption that approval as an investment trust under section 1158 of the Corporation Tax Act 2010 will be retained.

The Financial Statements have been prepared in accordance with the Companies Act 2006, applicable UK Accounting Standards and with the AIC's Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in November 2014 and updated in January 2017 with consequential amendments.

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

The Company's investments are classified as held at fair value through profit and loss in accordance with sections 11 and 12 of FRS 102. They are managed and evaluated on a fair value basis in accordance with the Company's investment strategy and information about the investments is provided to the Board on that basis.

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

Investments in securities are held at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value. The fair value of listed investments is the last traded price which is equivalent to the bid price on Japanese markets.

The fair value of unlisted investments is determined by the Directors using methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines.

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

(c) Cash and Cash Equivalents

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

(d) Income

(i) Income from equity investments is brought into account on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

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

(iii) Overseas dividends include withholding tax deducted at source.

(iv) Interest receivable on bank deposits are recognised on an accruals basis.

(v) If scrip is taken in lieu of dividends in cash, the net amount of the equivalent cash dividend is credited to the revenue account. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised as capital.

(e) Expenses

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

(f) Finance Costs

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

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

(g) Taxation

Current tax is provided at the amounts expected to be paid or recovered. 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.

(j) Significant Estimates and Judgements

The Directors do not believe that any accounting judgements or estimates have been applied to these accounting statements that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year.

The Directors consider the Company's functional currency to be sterling (see (a) Basis of Accounting on page 43).

2 Income

	2018 £'000	2017 £'000
Income from investments		
Listed overseas dividends	3,496	2,912
Total income	**3,496**	**2,912**
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	3,496	2,912
Total income	**3,496**	**2,912**

3 Investment Management Fee – all charged to revenue

	2018 £'000	2017 £'000
Investment management fee	**2,131**	**1,590**

Details of the Investment Management Agreement are set out on page 23. The annual management fee is 0.95% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remaining net assets, calculated quarterly. Prior to 1 September 2016 the fee was 0.95% on the first £50m of net assets and 0.65% on the remaining net assets.

4 Other Administrative Expenses

	2018 £'000	2017 £'000
General administrative expenses	372	248
Directors' fees (see Directors' Remuneration Report on page 32)	118	118
Auditor's remuneration (statutory audit of the Company's Financial Statement) – Paid to PWC LLP	–	20
– Payable to KPMG LLP	20	–
	510	**386**

5 Finance Costs of Borrowings

	2018 £'000	2017 £'000
Interest on bank loans	**732**	**544**

The bank loan interest disclosed includes £15,000 paid (2017 – £7,000) in respect of yen deposits held at the custodian bank.

6 Tax on Ordinary Activities

	2018 £'000	2017 £'000
Analysis of charge in year		
Overseas taxation (charged to revenue)	**350**	**291**
Factors affecting tax charge for year		
The tax assessed for the year is lower (2017 – lower) than the standard rate of corporation tax in the UK of 19.17% (2017 – 20%)		
The differences are explained below:		
Net return on ordinary activities before taxation	112,101	56,150
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.17% (2017 – 20%)	21,490	11,230
Effects of:		
Capital returns not taxable	(21,466)	(11,152)
Income not taxable	(629)	(507)
Overseas withholding tax	350	291
Taxable losses in year not utilised	605	429
Total tax charge for the year	**350**	**291**

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

Factors that may affect future tax charges

At 31 January 2018 the Company had a potential deferred tax asset of £3,276,000 (2017 – £2,705,000) 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 17% (2017 – 17%).

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

	2018 Revenue	2018 Capital	2018 Total	2017 Revenue	2017 Capital	2017 Total
Net return on ordinary activities after taxation	**(0.53p)**	**261.52p**	**260.99p**	**0.26p**	**142.88p**	**143.14p**

Revenue return per ordinary share is based on the net revenue loss on ordinary activities after taxation of £227,000 (2017 – gain of £101,000) and on 42,818,456 ordinary shares (2017 – 39,024,022) 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 £111,978,000 (2017 – net capital gain of £55,758,000) and on 42,818,456 ordinary shares (2017 – 39,024,022) 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

As at 31 January 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	442,526	–	–	**442,526**
Unlisted equities	–	–	1,391	**1,391**
Total financial asset investments	**442,526**	**–**	**1,391**	**443,917**

As at 31 January 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	251,680	–	–	**251,680**
Unlisted equities	–	–	–	**–**
Total financial asset investments	**251,680**	**–**	**–**	**251,680**

8 Fixed Assets – Investments (continued)

Investments in securities are financial assets designated at fair value through profit or loss. In accordance with Financial Reporting Standard 102, the tables above provide an analysis of these investments based on the fair value hierarchy described below, which reflects the reliability and significance of the information used to measure their fair value.

Fair Value Hierarchy

The fair value hierarchy used to analyse the basis on which the fair values of financial instruments held at fair value through the profit or loss account are measured is described below. Fair value measurements are categorised on the basis of the lowest level input that is significant to the fair value measurement.

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

The valuation techniques used by the Company are explained in the accounting policies on page 43.

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.

	Listed equities £'000	Unlisted equities £'000	Total equities £'000
Cost of investments held at 1 February 2017	122,552	–	122,552
Investment holding gains at 1 February 2017	129,128	–	129,128
Fair value of investments held at 1 February 2017	**251,680**	**–**	**251,680**
Movements in year:			
Purchases at cost	108,036	1,652	109,688
Sales – proceeds	(25,838)	–	(25,838)
– gains on sales	15,243	–	15,243
Changes in investment holding gains	93,405	(261)	93,144
Fair value of investments held at 31 January 2018	**442,526**	**1,391**	**443,917**
Cost of investments held at 31 January 2018	219,993	1,652	221,645
Investment holding gains at 31 January 2018	222,533	(261)	222,272
Fair value of investments held at 31 January 2018	**442,526**	**1,391**	**443,917**

The gains on sales of £15,243,000 and increase in investment holding gains of £93,144,000 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 £50,000 (2017 – £24,000) and £16,000 (2017 – £13,000) respectively.

Of the gains on sales during the year of £15,243,000 (2017 – gains of £12,670,000), a net gain of £10,025,000 (2017 – net gain of £6,098,000) was included in the investment holding gains at the previous year end.

	2018 £'000	2017 £'000
Net gains on investments		
Gains on sales	15,243	12,670
Changes in investment holding gains	93,144	46,160
	108,387	**58,830**

9 Debtors

	2018 £'000	2017 £'000
Accrued income	955	761
Sales for subsequent settlement	–	12
Share issuance proceeds awaiting settlement	1,839	–
Other debtors and prepayments	39	28
	2,833	**801**

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

10 Creditors – amounts falling due within one year

	2018 £'000	2017 £'000
Purchases for subsequent settlement	2,275	–
Other creditors and accruals	854	553
	3,129	**553**

Included in creditors is £652,000 (2017 – £418,000) 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

	2018 £'000	2017 £'000
Bank loans	**47,877**	**23,576**

The bank loans are stated after deducting the arrangement fees of £201,000 which are amortised over the terms of the loans. Amortisation of the arrangement fees during the year was £25,000 (2017– £18,000).

Borrowing facilities

During the year the Company drew down the following additional borrowings from ING Bank N.V. – ¥2,000 million at 1.301%, maturing 27 November 2020 and ¥2,100 million at 1.693% maturing on 18 December 2024.

At 31 January 2018

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

ING Bank N.V. – 3 year 8 month ¥2,000 million loan at 1.301% maturing 27 November 2020.

ING Bank N.V. – 7 year ¥2,100 million loan at 1.693% maturing 18 December 2024.

At 31 January 2017

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

The covenants during the year relating to the ING Bank N.V. loan were 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 £100 million.

There were no breaches in loan covenants during the year.

Security has been provided to ING Bank N.V. in respect of the loans by way of floating charges.

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

12 Share Capital

	2018 Number	2018 £'000	2017 Number	2017 £'000
Allotted and fully paid ordinary shares of 10p each	**47,485,497**	**4,749**	**40,395,497**	**4,040**

At 31 January 2018 the Company had authority to buy back 6,148,972 shares. No shares were bought back during the year (2017 – nil). Share buy-backs are funded from the capital reserve.

During the year the Company issued 7,090,000 shares on a non pre-emptive basis at a premium to net asset value for net proceeds of £55,789,000 (2017 – 2,620,000 shares for net proceeds of £14,623,000).

13 Capital and Reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Shareholders' funds £'000
At 1 February 2017	4,040	40,094	21,521	173,473	(5,256)	**233,872**
Ordinary shares issued	709	55,080	–	–	–	**55,789**
Net gain on disposal of investments	–	–	–	15,243	–	**15,243**
Changes in investment holding gains	–	–	–	93,144	–	**93,144**
Exchange differences on bank loans	–	–	–	4,076	–	**4,076**
Exchange differences on settlement of investment transactions	–	–	–	(42)	–	**(42)**
Other exchange differences	–	–	–	(443)	–	**(443)**
Net revenue return for the year	–	–	–	–	(227)	**(227)**
At 31 January 2018	**4,749**	**95,174**	**21,521**	**285,451**	**(5,483)**	**401,412**

The capital reserve includes investment holding gains of £222,272,000 (2017 – gains of £129,128,000) as disclosed in note 8. The revenue reserve and the capital reserve (to the extent it constitutes realised profits) are distributable.

14 Net Asset Value per Ordinary Share

The net asset value attributable to the ordinary shareholders and the net asset value per ordinary share at the year end were as follows:

	2018	2017
Net asset value/Shareholders' funds†	£401,412,000	£233,872,000
Number of ordinary shares in issue at year end	47,485,497	40,395,497
Shareholders' funds per ordinary share/Net asset value per ordinary share (after deducting borrowings at book value)†	845.3p	579.0p
Net asset value per ordinary share (after deducting borrowings at par value)†	845.1p	578.8p
Net asset value per ordinary share (after deducting borrowings at fair value)†	843.7p	577.4p

† See Glossary of Terms on page 61 for an explanation of the alternative bases of net asset value.

The value of the borrowings on the bases set out above are disclosed in note 17 on page 52.

Deducting borrowings at par would have the effect of reducing the net asset value per ordinary share from 845.3p to 845.1p (2017 – reducing net asset value per ordinary share from 579.0p to 578.8p)

Deducting borrowings at fair value would have the effect of reducing the net asset value per ordinary share to 843.7p. Taking the market price of the ordinary shares at 31 January 2018 of 922.0p, this would have given a premium to net asset value of 9.3% as against 9.1% on the basis of deducting borrowings at par. At 31 January 2017 the net asset value after deducting borrowings at fair value was 577.4p. Taking the market value of the ordinary shares at 31 January 2017 of 598.0p, this would have given a premium to net asset value of 3.6%. The basis of deducting borrowings at par would have given a premium to net asset value of 3.3%.

15 Contingent Liabilities, Guarantees and Financial Commitments

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

16 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 32. 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.

The management fee due to Baillie Gifford and Co Limited is set out in note 3 on page 44 and the amount accrued at 31 January 2018 is set out in note 10 on page 47. Details of the Investment Management Agreement are set out on page 23.

17 Financial Instruments and Risk Management

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

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

The Company may enter into derivative transactions as explained in the Objective and Policy on page 7. No such transactions were undertaken in the year under review.

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

Market Risk

The fair value or future cash flows of a financial instrument or other investment held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk. The Board of Directors reviews and agrees policies for managing these risks and the Company's Investment Managers both assess the exposure to market risk when making individual investment decisions and monitor the overall level of market risk across the investment portfolio on an ongoing basis. Details of the Company's investment portfolio are shown in note 8.

(i) Currency Risk

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

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

Yen borrowings are used periodically to limit the Company's exposure to anticipated future changes in the yen/sterling exchange rate which might otherwise adversely affect the value of the portfolio of investments. The Company may also use forward currency contracts, although none have been used in the current or prior year.

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

At 31 January 2018	Investments £'000	Cash and deposits £'000	Bank loans £'000	Other debtors and creditors £'000	Net exposure £'000
Yen	443,917	4,200	(47,877)	(1,461)	**398,779**
Total exposure to currency risk	443,917	4,200	(47,877)	(1,461)	**398,779**
Sterling	–	1,468	–	1,165	**2,633**
	443,917	**5,668**	**(47,877)**	**(296)**	**401,412**

At 31 January 2017	Investments £'000	Cash and deposits £'000	Bank loans £'000	Other debtors and creditors £'000	Net exposure £'000
Yen	251,680	5,459	(23,576)	681	**234,244**
Total exposure to currency risk	251,680	5,459	(23,576)	681	**234,244**
Sterling	–	61	–	(433)	**(372)**
	251,680	**5,520**	**(23,576)**	**248**	**233,872**

17 Financial Instruments and Risk Management (continued)

Currency Risk (continued)

Currency Risk Sensitivity

At 31 January 2018, 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 £39,878,000 (2017 – £23,424,000). 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 2018 is shown below. There was no significant change to the interest rate risk profile during the year.

Financial Assets

	2018 Fair value £'000	2018 Weighted average interest rate	2017 Fair value £'000	2017 Weighted average interest rate
Cash:				
Yen	4,200	nil	5,459	nil
Sterling	1,468	0.02%	61	0.01%
	5,668		**5,520**	

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

Financial Liabilities

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

	2018 Book value £'000	2018 Weighted average interest rate	2018 Weighted average period until maturity	2017 Book value £'000	2017 Weighted average interest rate	2017 Weighted average period until maturity
Bank loans:						
Yen denominated – fixed rate	**47,877**	**1.8%**	**48 months**	**23,576**	**2.2%**	**46 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 18 to 19. In addition, various analyses of the portfolio by industrial sector, exchange listing, holding period and investment theme are shown on pages 17 and 20.

110.2% of the Company's net assets are invested in Japanese quoted equities (2017 – 107.6%). A 10% increase in quoted equity valuations at 31 January 2018 would have increased total net assets and net return on ordinary activities after taxation by £44,253,000 (2017 – £25,168,000). A decrease of 10% would have had an equal but opposite effect. This analysis does not include the effect on the management fee of changes in quoted equity valuations.

17 Financial Instruments and Risk Management (continued)

Liquidity Risk

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

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

The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding (see Objective and Policy on page 7).

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

	2018 £'000	2017 £'000
In less than one year:		
– accumulated interest	887	533
In more than one year but not more than five years:		
– repayment of loan	34,466	23,653
– accumulated interest	2,125	1,502
In more than five years:		
– repayment of loan	13,529	–
– accumulated interest	437	–
	51,444	**25,688**

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

Credit Risk

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

— The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. For the period up to the date of these Financial Statements, the Depositary delegated the custody function to The Bank of New York Mellon (International) Limited. 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 2018 and 2017, all cash deposits were held with the custodian bank. 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:

	2018 £'000	2017 £'000
Cash and deposits	5,668	5,520
Debtors	2,810	778
	8,478	**6,298**

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

17 Financial Instruments and Risk Management (continued)

Fair Value of Financial Assets and Financial Liabilities

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

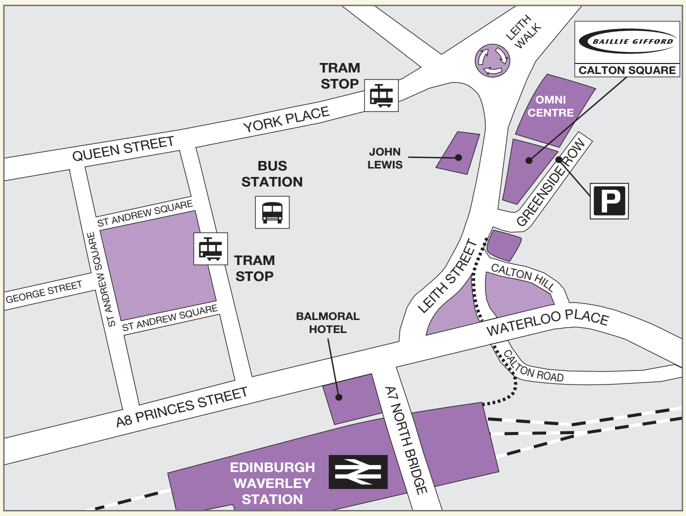
	2018 Book value £'000	2018 Par value £'000	2018 Fair* value £'000	2017 Book value £'000	2017 Par value £'000	2017 Fair* value £'000
Fixed rate yen bank loans	**47,877**	**47,995**	**48,646**	**23,576**	**23,653**	**24,216**

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

Capital Management

The capital of the Company is its share capital and reserves as set out in note 13 together with its borrowings (see note 11). The Company's investment objective and policy is set out on page 7. In pursuit of the Company's objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern and details of the related risks and how they are managed are set out on pages 8 and 9 and pages 28 and 29, respectively. The Company has the ability to buy back and issue shares (see pages 24 and 25) and changes to the share capital during the year are set out in note 12. The Company does not have any externally imposed capital requirements other than the covenants on its loans which are detailed in note 11.

Notice of Annual General Meeting



The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Friday, 18 May 2018 at 10.00am.

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

Baillie Gifford may record your call.

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

Notice is hereby given that the thirty third 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 Friday, 18 May 2018 at 10.00am for the following purposes:

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

1. To receive and adopt the Financial Statements of the Company for the year ended 31 January 2018 with the Reports of the Directors and of the Independent Auditor thereon.
2. To approve the Directors' Annual Report on Remuneration for the year ended 31 January 2018.
3. To re-elect Mr PF Charig as a Director.
4. To re-elect Mr IA McLaren as a Director.
5. To re-elect Mr MN Donaldson as a Director.
6. To re-elect Mrs MR Somerset Webb as a Director.
7. To re-appoint KPMG LLP as Independent Auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which the Financial Statements are laid before the Company.
8. To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.
9. That, with effect from 1 February 2018, fees paid to Directors for their services as Directors of the Company shall not exceed £200,000 per annum in aggregate.
10. That each of the ordinary shares of 10 pence each in the capital of the Company be subdivided into 5 ordinary shares of 2 pence each (the 'New Ordinary Shares'), the New Ordinary Shares having the rights and being subject to the restrictions set out in the Articles of Association of the Company, provided that such sub-division is conditional on, and shall take effect on, admission of the New Ordinary Shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities by 8.00am on 21 May 2018 (or such other time and/or date as the Directors of the Company may in their absolute discretion determine).
11. 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 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 £1,622,016.50 (representing 33.33% of the Company's total issued share capital as at 22 March 2018), 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 12 and 13 as Special Resolutions:

12. That, subject to the passing of Resolution 11 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to sections 570 and 573 of the Companies Act 2006 ('the Act') to allot equity securities (within the meaning of section 560(1) of the Act) for cash, either pursuant to the authority given by Resolution 11 above or by way of the sale of treasury shares wholly for cash as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power:

    (a) 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

(b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £486,604.90 being approximately 10% of the nominal value of the issued share capital of the Company, as at 22 March 2018.

13. 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 its 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 36,471,042 if Resolution 10 above is approved and becomes effective, or otherwise 7,294,208, or, if less, the number representing 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 the nominal value of that share;

(c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:

(i) 5% above the average closing price on the London Stock Exchange of an ordinary share over the 5 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 2019, 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
11 April 2018

Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the Financial Statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.

2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or **www.eproxyappointment.com** no later than 48 hours (excluding non-working days) before the time of the meeting or any adjourned meeting.

3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website **www.euroclear.com/CREST**. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than 48 hours (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.

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/her 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 AGM (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
10. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
12. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the Auditor) setting out any matter relating to the audit of the Company's Financial Statements, including the 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 AGM, including information required by section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at **www.shinnippon.co.uk**.
14. Members have the right to ask questions at the meeting in accordance with section 319A of the Companies Act 2006.
15. As at 22 March 2018 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 48,660,497 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 22 March were 48,660,497 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 Guidance 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 58 and 59 for details). If you are interested in investing directly in Baillie Gifford Shin Nippon, you can do so online. There are a number of companies offering real time online dealing services – find out more by visiting the investment trust pages at **www.bailliegifford.com**.

Sources of Further Information on the Company

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

Baillie Gifford Shin Nippon Share Identifiers

ISIN GB0000706274

Sedol 0070627

Ticker BGS

Legal Entity Identifier X5XCIPCJQCSUF8H1FU83

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

Key Dates

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

Capital Gains Tax

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

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

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

The attributable costs are:

	Apportioned cost	First day of dealing value
Cost of each ordinary share	164.81p	178.00p
Cost of each warrant 2005	76.85p	83.00p

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

Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0370 889 3223.

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

— hear the latest share price;

— confirm your current share holding balance; and

— order Change of Address and Stock Transfer forms.

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

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

— view your share portfolio and see the latest market price of your shares;

— calculate the total market price of each shareholding;

— view price histories and trading graphs;

— change address details; and

— use online dealing services.

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

Electronic Proxy Voting

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

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

CREST Proxy Voting

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

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

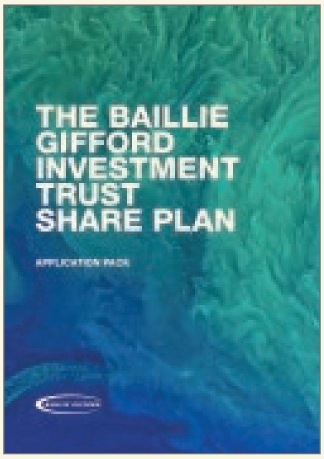
These Financial Statements have been approved by the Directors of Baillie Gifford Shin Nippon PLC. Baillie Gifford Savings Management Limited (BGSM) is the ISA Manager of the Baillie Gifford Investment Trust ISA and the Manager of the Baillie Gifford Investment Trust Share Plan and Children's Savings 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

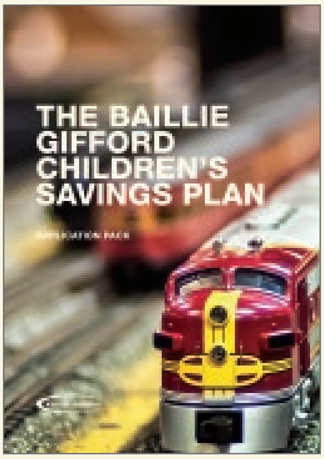
	2018 Number of shares held	2018 %	2017 Number of shares held	2017 %
Institutions	5,038,003	10.6	7,394,831	18.3
Intermediaries	37,645,932	79.3	27,913,252	69.1
Individuals*	1,628,658	3.4	2,544,043	6.3
Baillie Gifford Share Plans/ISA	3,066,864	6.5	2,481,947	6.1
Marketmakers	106,040	0.2	61,424	0.2
	47,485,497	**100.0**	**40,395,497**	**100.0**

* Includes all holdings under 5,000 shares.

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



The Baillie Gifford Investment Trust Share Plan
available at **www.shinnippon.co.uk**



The Baillie Gifford Children's Savings Plan
available at **www.shinnippon.co.uk**

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 £20,000 each year

— Save monthly from £100

— A withdrawal charge of just £22

ISA Transfers

— Transfer existing ISAs from other plan managers into the Baillie Gifford ISA

— Consolidate your plans into a managed global investment

— Minimum transfer value £2,000

The Baillie Gifford Children's Savings Plan

— An excellent way for parents, grandparents or other adults to invest for a child

— No initial charge

— No annual wrapper charge

— The option of a designated account or a bare trust in favour of the child

— Flexible investment options: lump sum from £100 or monthly saving from just £25

— A withdrawal charge of just £22

Online Management Service

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

— obtain current valuations;

— make lump sum investments, except where there is more than one holder;

— switch between investment trusts, except where there is more than one holder;

— set up a direct debit to make regular investments;

— sell part or all of your holdings, except where there is more than one holder; and

— update certain personal details e.g. address and telephone number.

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

Further information

If you would like more information on any of the plans described, please contact the Baillie Gifford Client Relations Team. (See contact details on page 62).

Risks

Past performance is not a guide to future performance.

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

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

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

Baillie Gifford Shin Nippon can make use of derivatives. The use of derivatives may impact on its performance. Currently the Company does not make use of derivatives.

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

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

Baillie Gifford Shin Nippon invests in smaller companies which are generally considered higher risk as changes in their share prices may be greater and the shares may be harder to sell. Smaller companies may do less well in periods of unfavourable economic conditions.

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

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

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

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

The favourable tax treatment of ISAs may change.

Investment Trusts are UK public listed companies and as such comply with the requirements of the UK Listing Authority. They are not authorised or regulated by the Financial Conduct Authority.

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

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

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

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

Alternative Investment Fund Managers (AIFM) Directive

In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Baillie Gifford & Co Limited, is required to be made available to investors. In accordance with the Directive, the AIFM remuneration policy is available at **www.bailliegifford.com** or on request (see contact details on the back cover) and the most recent numerical remuneration disclosures in respect of the AIFM (year ended 31 March 2017) are available at **www.bailliegifford.com**.

The Company's maximum and actual leverage levels (see Glossary of Terms on page 61) at 31 January 2018 were as follows:

Leverage

	Gross method	Commitment method
Maximum limit	2.50:1	2.00:1
Actual	1.11:1	1.12:1

Automatic Exchange of Information

In order to fulfil its obligations under UK tax legislation relating to the automatic exchange of information, Baillie Gifford Shin Nippon PLC is required to collect and report certain information about certain shareholders.

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

Shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purposes of collecting this information.

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

Third Party Data Provider Disclaimer

No third party data provider ('Provider') makes any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data. No Provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the index data included in this document, regardless of cause, or for any damages (whether direct or indirect) resulting therefrom.

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Without limiting the foregoing, no Provider shall have any liability whatsoever to you, whether in contract (including under an indemnity), in tort (including negligence), under a warranty, under statute or otherwise, in respect of any loss or damage suffered by you as a result of or in connection with any opinions, recommendations, forecasts, judgments, or any other conclusions, or any course of action determined, by you or any third party, whether or not based on the content, information or materials contained herein.

MSCI Index data

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This document is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

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 (Borrowings at Fair Value)
Borrowings are valued at an estimate of their market worth. The Company's yen denominated loans are fair valued with reference to Japanese government bonds of comparable yield and maturity. The value of the borrowings on this basis is set out in note 17 on page 52.

Net Asset Value (Borrowings at Book Value)
Borrowings are valued at adjusted net issue proceeds. The Company's yen denominated loans are valued at their sterling equivalent and adjusted for their arrangement fees. The value of the borrowings on this basis is set out in note 17 on page 52.

Net Asset Value (Borrowings at Par Value)
Borrowings are valued at their nominal par value. The Company's yen denominated loans are valued at their sterling equivalent. The value of the borrowings on this basis is set out in note 17 on page 52.

Net Liquid Assets
Net liquid assets comprise current assets less current liabilities, excluding borrowings.

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.

Total Return
The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes ex-dividend. The Company does not pay a dividend.

Ongoing Charges
The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value). The ongoing charges have been calculated on the basis prescribed by the Association of Investment Companies.

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.

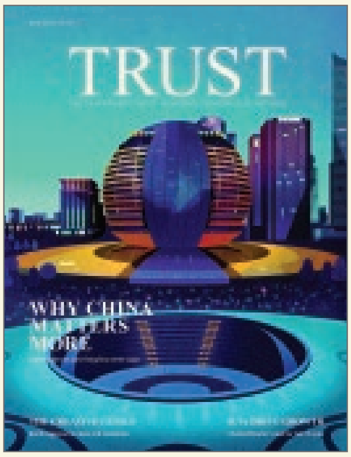
Portfolio Performance Attribution
Portfolio Performance Attribution illustrates how the portfolio has performed in absolute terms and relative to the comparative index. Performance is calculated on this basis for the portfolio holdings according to their relevant industrial sector classifications. Contributions to relative performance against the index are attributed to either stock selection (relative performance derived from the selection of stocks within an industrial sector) or asset allocation (relative performance derived from overall allocation to each industrial sector).

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

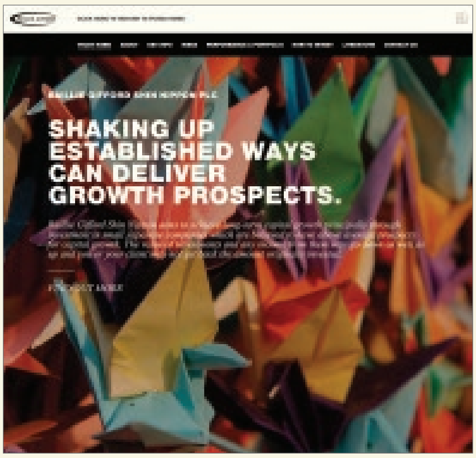
Share Split
A share split (or stock split) is the process by which a company divides its existing shares into multiple shares. Although the number of shares outstanding increases, the total value of the shares remains the same with respect to the pre-split value.

The Company is proposing a share split at the AGM on 18 May 2018. Please refer to the explanations in the Chairman's Statement on page 2 and in the Directors Report on page 24.

Communicating with Shareholders



Trust Magazine



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

Trust Magazine

Trust is the Baillie Gifford investment trust magazine which is published twice 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.bailliegifford.com/trust**.

Baillie Gifford Shin Nippon on the Web

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

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

Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcomed, so please contact the Baillie Gifford Client Relations Team and give them your suggestions. They will also be very happy to answer questions that you may have, either about Baillie Gifford Shin Nippon or the plans described on pages 58 and 59.

Literature in Alternative Formats

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

Client Relations Team Contact Details

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

Telephone: 0800 917 2112
Your call may be recorded for training or monitoring purposes.

E-mail: trustenquiries@bailliegifford.com
Website: www.bailliegifford.com
Fax: 0131 275 3955

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

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

Directors

Chairman:
MN Donaldson

PF Charig
IA McLaren
MR Somerset Webb
SCN Somerville

Alternative Investment Fund Managers, Secretaries and Registered Office

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EC4M 9AF

Independent Auditor

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Depositary

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