

BAILLIE GIFFORD SHIN NIPPON PLC

Investing in new
opportunities in Japan



Annual Report and Financial Statements
31 January 2020



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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 holding in Baillie Gifford Shin Nippon PLC, please forward this document, together with accompanying documents, but not your personalised Form of Proxy, as soon as possible to the purchaser of 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 2020

Total Returns*

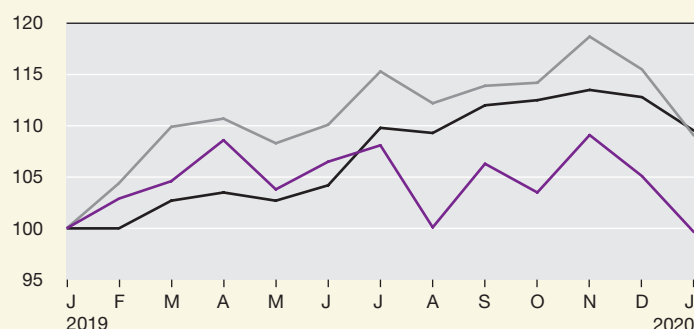
Share Price -0.5%	NAV 8.9% (borrowings at book value)	NAV 9.0% (borrowings at fair value†)	Comparative Index# 9.5%
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* Source: Refinitiv/Baillie Gifford. Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on page 63 and 64 and comparatives for 2019 on page 4.

NAV, Share Price and Comparative Index

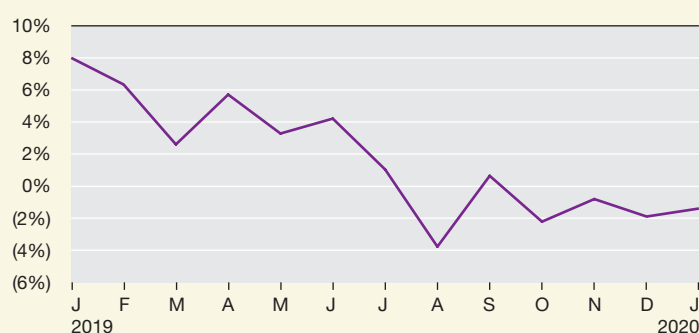
(figures rebased to 100 at 31 January 2019)

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



Premium/(discount)†

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



† Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

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

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 62.

Past performance is not a guide to future performance.

Cover image: The Koinobori kite represents a colourful, ornamental freshwater carp called a koi. The koi is revered in Japanese culture, where it's regarded as a symbol of strength, energy, and courage. Koi are vigorous and powerful, enabling them to swim upstream. Koinobori kites, streamers or banners, decorate the landscape of Japan from April through early May, in honour of Children's Day. The Festival was originally an event expressing hope that each child in the family will grow up healthy and strong like wild carp.

Strategic Report

This Strategic Report, which includes pages 2 to 24 and incorporates the Chairman's Statement has been prepared in accordance with the Companies Act 2006.

Chairman's Statement

I am pleased to provide a report on your Company's performance for the year ended 31 January 2020. The Net Asset Value per share* (NAV) rose by 9.0% over the year, marginally behind the growth in the comparative index (MSCI Japan Small Cap index, total return in sterling terms) of 9.5%. Your Board continues to review progress over a rolling three year period. During this period the Company's NAV grew by 49.6% versus the comparative index return of 18.1% and the share price has increased by 42.5%.

Demand for the Company's shares exceeded supply at the start of the year, but this reversed over the course of the year, and the share price moved from an 8.0% premium to NAV to a 1.4% discount to NAV. In turn the share price fell by 0.5% over the year.

There is no doubt that 2019 was a difficult period for small cap companies in Japan. Ongoing trade tariff disputes between China and the US naturally affected sentiment within Japan. The year end date unfortunately coincided with the escalating concerns surrounding the coronavirus in China and time will yet tell as to how this will affect inbound tourism and the Japanese economy in general.

Share Issuance

During the year 6.13m shares were issued at a premium to NAV (the majority of this issuance took place during the first half of the year). This raised £11.14m of new money and represented 2.2% of the share capital as at 31 January 2019. Your Board believes that issuing new shares at a premium to NAV has a number of benefits for shareholders, including reducing the ongoing charges and improving the liquidity of the shares. Conversely with the premium slipping to a small discount at the year end your Board will monitor the situation carefully and is seeking authority to buy back shares where the Board considers it to be in the best interests of the shareholders and the Company as a whole.

Borrowings

The Manager continues to use gearing to enhance portfolio performance and your Board remains supportive of this strategy. Gearing at the year end was equivalent to 10% of net assets down from 11% the previous year.

Total borrowings remain unchanged at ¥7.45bn and during the year the yen marginally strengthened against sterling by 0.2%. The Company undertook no currency hedging during the year and has no plans to do so.

Revenue

The revenue return per share increased from 0.04p to 0.28p. The growth in portfolio income more than offset the increase in the management fee. Underlying income growth from the portfolio generated an increase in gross income of 17.9%. Total expenses increased by 3.2% and the management fee increased by 5.3% reflecting the increase in the average NAV over the year. Nevertheless, I am pleased to report a further reduction in the ongoing charges from 0.77% to 0.73%.

Stewardship

The consideration of stewardship factors is an integral part of the Managers' long term investment approach. Further detail on the Managers' approach can be found on page 19.

AGM

At this year's AGM your Board are again seeking authority to issue new shares of up to 10% of the Company's issued share capital. Any shares issued would be for cash, on a non-pre-emptive basis and only at a premium to NAV thereby enhancing 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 interest of existing shareholders. Your Board will monitor this closely.

Conversely your Board will once again be seeking the approval to buy back shares should they start trading at a substantial discount, over a sustained period of time either in absolute terms or in relation to its peers. If required this activity would also enhance the net asset value attributable to existing shareholders.

Governance

Simon Somerville, our Senior Independent Director, will retire from the Board at the AGM on 14 May. Simon has been a marvellous asset to the Company. His knowledge of Japan, its culture and its economy has been of invaluable benefit to the Board and Managers. He will be sorely missed and I thank him on your behalf for all the work he has done for us.

I am delighted to report that Kevin Troup has been appointed to the Board. Kevin is a highly experienced ex-fund manager with strong governance, business, analytical and decision making skills. Kevin joins us with excellent Japanese equities experience and I look forward to working with him in the years ahead.

Past performance is not a guide to future performance.
See disclaimer on page 62.

* After deducting borrowings at fair value. For a definition of terms see Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

Outlook

The Board and Managers have considered the implications of the remaining uncertainties around Brexit including the potential market reaction should the UK be unable to reach a trade agreement with the EU by the end of the transition period.

As I commented last year, around half of the Company's investments are domestically focussed within Japan and the remaining holdings have minimal exposure to the UK. The value of the Company's shares would be affected by any impact, positively or negatively, on sterling but this would be partially offset by the effect of exchange movements on the Company's yen denominated borrowings. Additionally, the potential for volatility on the London Stock Exchange can be managed by the Board's power to issue or buyback shares in response to the level of underlying demand. The Board will of course continue to monitor developments but is not concerned about the impact of Brexit on the Company.

As I write this, the coronavirus continues to be a significant risk and one cannot possibly foresee the longer-term consequences for the Japanese economy, inbound tourism, the labour market or indeed the Olympic and Paralympic games. The Rugby World Cup in Japan last year was a huge success, with the eyes of the world on Japan. I sincerely hope that they will again have the opportunity to portray a strong and positive image to the outside world this summer.

An ageing population coupled with a shrinking workforce would on the face of it, be a huge worry. Japan, however, has been alert to these changing trends for some time now and has embraced what is known as the 'silver market' with enthusiasm. Changing technology can bring huge benefits to all, with a greater unity of purpose and sense of urgency. The Government accepts that change is necessary to address these issues and in the longer term should be beneficial for the country. The Company's Manager remains focussed on identifying companies with high growth potential and investing in them for the long term. Your Board remains positive that this approach should reward the patient investor.

M Neil Donaldson
16 March 2020

One Year Summary

The following information illustrates how Shin Nippon has performed over the year to 31 January 2020.

	31 January 2020	31 January 2019	% change
Total assets (before deduction of bank loans)*	£535.8m	£486.1m	
Bank loans	£52.1m	£52.0m	
Shareholders' funds	£483.7m	£434.2m	
Net asset value per ordinary share (after deducting borrowings at fair value)†	172.8p	158.5p	9.0
Net asset value per ordinary share (after deducting borrowings at book value)*	173.0p	158.8p	8.9
Share price	170.4p	171.2p	(0.5)
Comparative index#			9.5
Yen/sterling exchange rate	142.87	143.16	0.2
(Discount)/premium (after deducting borrowings at fair value)†	(1.4%)	8.0%	
(Discount)/premium (after deducting borrowings at book value)†	(1.5%)	7.8%	
Revenue earnings per ordinary share	0.28p	0.04p	
Ongoing charges†	0.73%	0.77%	
Active share†	94%	94%	

Year to 31 January	2020	2020	2019	2019
Year's high and low	High	Low	High	Low
Net asset value per ordinary share (after deducting borrowings at fair value)†	190.1p	157.9p	197.6p	147.2p
Share price	193.4p	169.0p	207.1p	158.1p
Premium/(discount) (after deducting borrowings at fair value)†	9.3%	(4.6%)	14.5%	0.5%

	31 January 2020	31 January 2019
Net return per ordinary share		
Revenue return	0.28p	0.04p
Capital return	13.57p	(13.98p)
Total return	13.85p	(13.94p)

* See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

† Alternative Performance Measure – see Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

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

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 62.

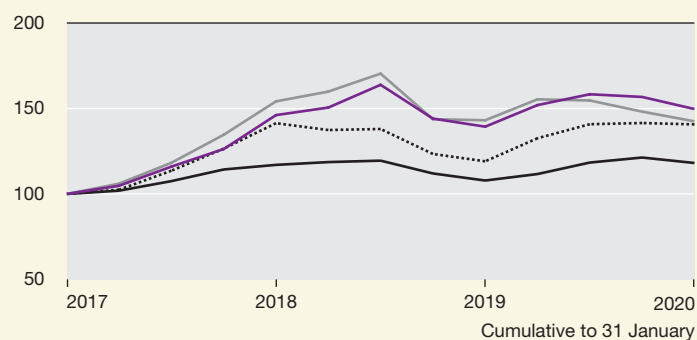
Past performance is not a guide to future performance.

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 net asset value over three and five year periods to 31 January 2020. The Board reviews performance principally over rolling three year periods.

Three Year Performance

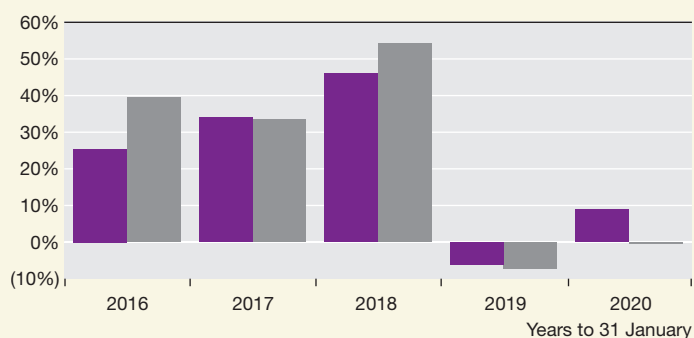
(figures rebased to 100 at 31 January 2017)



Source: Refinitiv/Morningstar/Baillie Gifford and relevant underlying index providers†.

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

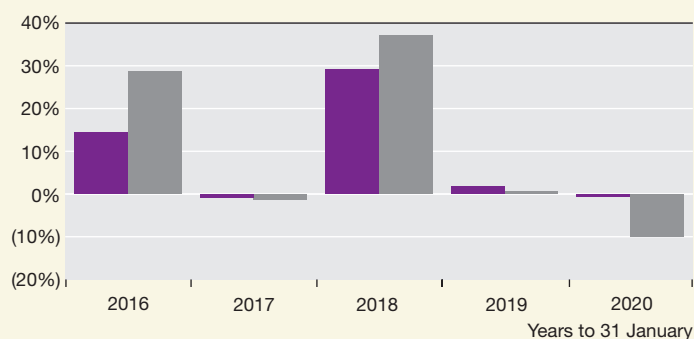
Annual change in Net Asset Value and Share Price



Source: Refinitiv/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: Refinitiv/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 fair value (see Glossary of Terms and Alternative Performance Measures on pages 63 and 64). AIC peer group comprises: Atlantis Japan Growth, AVI Japan Opportunity 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).

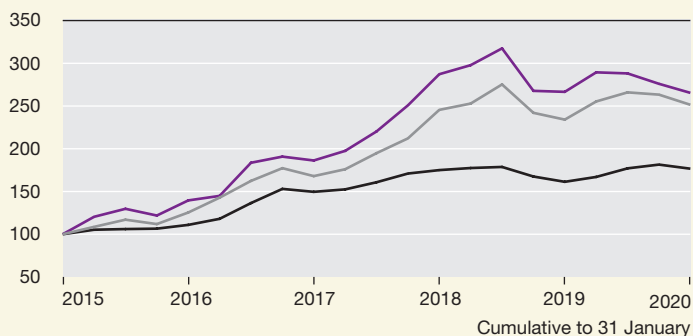
† See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

‡ See disclaimer on page 62.

Past performance is not a guide to future performance.

Five Year Performance

(figures rebased to 100 at 31 January 2015)



Source: Refinitiv/Baillie Gifford and relevant underlying index providers†.

— Share price

— NAV (after deducting borrowings at fair value)‡

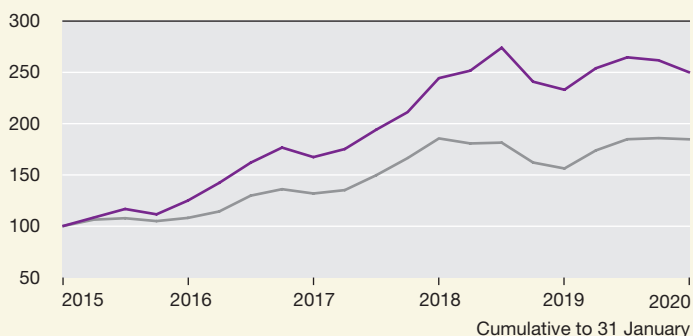
— Comparative Index*

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

‡ See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

Five Year Peer Group Performance

(figures rebased to 100 at 31 January 2015)



Source: Morningstar/Baillie Gifford‡.

— Shin Nippon

— Peer Group†

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

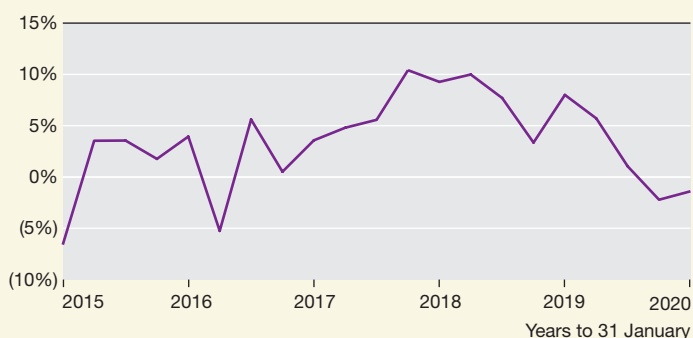
† AIC peer group comprises: Atlantis Japan Growth, AVI Japan Opportunity and JP Morgan Japanese Smaller Companies

Data is unweighted.

‡ See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

(Discount)/Premium to Net Asset Value

(plotted on a quarterly basis)

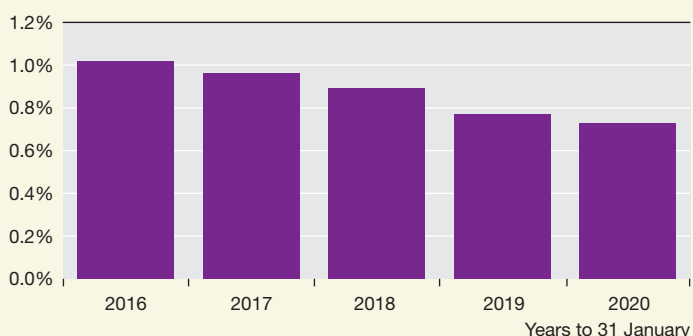


Source: Refinitiv/Baillie Gifford and relevant underlying index providers†.

— 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 and Alternative Performance Measures on pages 63 and 64).

Ongoing Charges



Source: Baillie Gifford.

Ongoing charges are calculated as total operating costs divided by average net asset value (after deducting borrowings at fair value) (see Glossary of Terms and Alternative Performance Measures on pages 63 and 64).

† See disclaimer on page 62.

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 (AIFMD).

Objective and Policy

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

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

In constructing the equity portfolio a spread of risk is achieved by diversifying the portfolio through investment in 40 to 80 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 total assets will be invested in such companies or funds.

The portfolio is expected to consist of predominantly listed equity holdings, however unlisted investments may also be held. Holdings of unlisted investments shall not exceed 10% of the total assets of the Company in aggregate at the time of purchase.

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.

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 premium/discount 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 and Alternative Performance Measures on pages 63 and 64.

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 24.

Borrowings

The Company has ¥7,450 million fixed rate secured borrowings with ING Bank N.V. (2019 – ¥7,450 million) maturing between 27 November 2020 and 18 December 2024 as detailed on page 51.

Principal Risks

As explained on pages 31 and 32 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 18 to the Financial Statements on pages 53 to 56. 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. The Board has considered the potential impact on the yen/sterling exchange rate from remaining Brexit related uncertainties. The value of the Company's investment portfolio would be affected by any impact, positively or negatively, on Sterling but would be partially offset by the effect of exchange movements on the Company's yen denominated borrowings.

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 premium/discount to Net Asset Value at which the shares trade; and movements in the share register.

Discount Risk – the premium/discount 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 premium/discount 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.

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 (including disruption resulting from the coronavirus outbreak) 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 62 and in the Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

Political Risk – political developments are closely monitored and considered by the Board. Following the departure of the UK from the European Union on 31 January 2020, the Board continues to assess the potential consequences for the Company's future activities but believes that the Company's portfolio of Japanese equities positions the Company to be suitably insulated from Brexit related risks. The Board has considered the potential impact on the yen/sterling exchange rates – see Financial Risk above.

Viability Statement

In accordance with provision 31 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 are due to expire in November 2020 and December 2024. Although the Directors do not envisage difficulty with refinancing these facilities, the majority of the investments are quoted securities which are readily realisable and could be sold to repay borrowings if required. Similarly, investments can be realised to meet expenses to the extent that they exceed the portfolio income. Specific leverage and liquidity stress testing was conducted during the year, including consideration of the risk of further market deterioration resulting from the coronavirus outbreak, 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.

The Board has specifically considered the UK's departure from the European Union on 31 January 2020 and does not consider that any outcome would affect the going concern status or viability of the Company.

Based on the Company's processes for monitoring revenue projections, share price premium/discount, 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.

Section 172 Statement

Under section 172 of the Companies Act 2006, the directors of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters and to the extent applicable) to:

- a) the likely consequences of any decision in the long term;
- b) the interests of the company's employees;

- c) the need to foster the company's business relationships with suppliers, customers and others;
- d) the impact of the company's operations on the community and the environment;
- e) the desirability of the company maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly as between members of the company.

In this context and having regard to Baillie Gifford Shin Nippon being an externally-managed investment company with no employees, the Board considers that the Company's key stakeholders are its existing and potential new shareholders, its externally-appointed Managers (Baillie Gifford) and other professional service providers (corporate broker, registrar, Auditor and depositary), lenders and wider society and the environment.

Great importance is placed by the Board on communication with shareholders and the Annual General Meeting provides the key forum for the Board and Managers to present to shareholders on the performance of Shin Nippon and on the future plans/prospects for the Company. It also allows shareholders the opportunity to meet with the Board and Managers and to raise questions and concerns. The Chairman is available to meet with shareholders as appropriate and the Managers meet regularly with shareholders and their respective representatives, reporting back on views to the Board. Shareholders may also communicate with the Board at any time by writing to them at the Company's registered office or to the Company's broker. These communication opportunities help inform the Board when considering how best to promote the success of the Company for the benefit of all shareholders over the long term.

The Board seeks to engage with the Managers and other service providers in a collaborative and collegiate manner, with open and respectful discussion and debate being encouraged, whilst also ensuring that appropriate and regular challenge is brought and evaluation is conducted. The aim of this approach is to enhance service levels and strengthen relationships with the Company's providers with a view to ensuring the interests of the Company's shareholders are best served by keeping cost levels proportionate and competitive, by maintaining the highest standards of business conduct and by upholding the Company's values.

Whilst the Company's operations are limited (with all substantive operations being conducted by the Company's third party service providers), the Board is keenly aware of the need to consider the impact of the Company's investment strategy and policy on wider society and the environment. The Board considers that its oversight of environmental, social and governance (ESG) matters is an important part of its responsibility to all stakeholders and that proper consideration of ESG factors sits naturally with Shin Nippon's long term approach to investment. Further details on the Managers' approach to stewardship are provided on page 19.

The Board recognises the importance of keeping the interests of the Company's shareholders, and of acting fairly between them, firmly front of mind in its key decision making and the Company Secretaries are at all times available to the Board to ensure that suitable consideration is given to the range of factors to which the Directors should have regard. In addition to ensuring that the Company's stated investment objective was being pursued, key decisions and actions during the year which have required the Directors to have regard to applicable section 172 factors include:

- as part of the Board's succession planning, the completion of the recruitment process to identify suitable candidates and the subsequent induction and appointment of Mr Kevin Troup on 1 March. This appointment is consistent with the AIC Corporate Governance Code principle that 'a successful company is led by an effective board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society';
- the appointment of Winterflood as the corporate broker following the completion of a tender process. The Board believes that the appointment of Winterflood will continue to support the liquidity of the Company's shares to the benefit of existing and potential shareholders and provide the Board with access to its market expertise; and
- the raising of over £11 million from new share issuance, at a premium to net asset value, in order to satisfy investor demand over the year and which serves the interests of current shareholders by reducing costs per share and helping to further improve liquidity.

Employees, Human Rights and Community Issues

The Board recognises the requirement to provide information about employees, human rights and community issues. The Company has no employees. All its Directors are non-executive and all its functions are outsourced. There are therefore, no disclosures to be made in respect of employees, human rights and community issues. Further information on the Company's approach to environmental, social and governance (ESG) matters are provided below.

Gender Representation

The Board comprises six Directors, five male and one female. The Company has no employees. The Board's policy on diversity is set out on page 31.

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 32 and the Managers' approach to stewardship is set out on page 19.

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.baillieghifford.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 in the Managers' Report on pages 11 to 13.

The Strategic Report which includes pages 2 to 24 was approved by the Board on 16 March 2020.

M Neil Donaldson
Chairman

Managers' Report

Philosophy

Since the launch of Shin Nippon in 1985, our investment philosophy has remained consistent. We seek to invest in the most dynamic of smaller companies in Japan that have the potential to grow rapidly for at least five to ten years. These businesses are typically founded and managed by young, entrepreneurial individuals who are willing to take short-term risks in return for long term success. This, in essence, captures the spirit of Shin Nippon. We invest in companies with a view of generating attractive returns for our shareholders in the long run. Given the immaturity of the businesses that we invest in, and the inherent volatility in their shares, we are prepared to tolerate periods of weak performance without compromising on our investment philosophy that has served patient shareholders well over the long-term. Japan continues to be a fertile hunting ground for exciting and fast-growing smaller businesses that have the potential to become world-class companies. Given the widening pool of such businesses amidst changing attitudes towards risk-taking in Japan, we remain excited with the investment opportunities that are becoming available to us.




Performance

High growth small cap stocks in Japan endured a tough period over the past year as numerous macro headwinds dampened investor sentiment. Concerns over global growth, a slowing Chinese economy, the ongoing trade war between the US and China, and more recently, the emergence of a potentially lethal global pandemic, all resulted in a 'risk-off' sentiment. Consequently, business confidence in Japan remained depressed, leading to numerous companies deferring their investment plans in the face of falling orders from key end markets.




Amidst heightened volatility, Shin Nippon's net asset value per share (after deducting borrowings at fair value) rose 15.3% during the first half of the year but fell 5.5% in the second half. Consequently, for the full year ending 31 January 2020, Shin Nippon's net asset value per share increased by 9.0% compared to a 9.5% rise in the benchmark MSCI Japan Small Cap Index (total return in sterling terms). We believe a fairer way of looking at performance is to focus on the long-term. Over both five and ten years, Shin Nippon's net asset value per share has compounded at around 20% per annum, thereby outperforming its benchmark by 8% and 9% per annum respectively. This illustrates the benefits of embracing volatility and adopting a patient and long-term approach to investing. It is also indicative of the fact that Japanese small caps can be a very rewarding asset class to invest in for the long-term.

Amidst a challenging backdrop, companies exhibiting strong sales and earnings growth were rewarded handsomely by the market. The share price of longstanding holding M3 more than doubled over the past year as its core online drug marketing business saw an acceleration in sales, contrary to market expectations. It also continues to expand into new areas like clinical testing and doctor recruitment. In clinical testing, M3 is able to recruit patients for clinical trials much quicker than its peers, thanks to its vast online database of doctors who can refer relevant patients. It is disrupting the healthcare recruitment industry in a similar vein, utilising its online database to refer doctors for suitable openings at medical institutions across Japan. It is making good progress in replicating its business model in markets like China and the US. All these initiatives are expanding M3's addressable market and we continue to believe that it can grow rapidly for much longer than the market anticipates.




WHAT WE LOOK FOR

-  Disruptive business models and dynamic entrepreneurs
-  Domestic champions and global leaders
-  Secular growth and innovation: 'New Japan'

HOW WE INVEST

-  Genuinely long-term: five years and beyond
-  Fundamental, bottom up research
-  Embracing asymmetry

HOW WE ENGAGE

-  Serious about engagement and alignment
-  Dedicated Governance and Sustainability team
-  Pragmatic approach

Past performance is not a guide to future performance. See disclaimer on page 62.

For a definition of terms see Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

Infomart was another strong performer. Its online food ordering system for restaurants has become the de facto industry standard. To consolidate its already strong competitive position, it is continuing to add new features to its ordering platform. It recently launched an electronic invoicing system that is proving to be a major hit with clients from a range of sectors. The Japanese Ministry of Economy, Trade and Industry recently highlighted Infomart's invoicing system as an example of an innovative solution designed to improve productivity and reduce costs. This endorsement has raised the company's profile and has helped generate a lot of interest in its services. It has recently tied up with another portfolio holding, online payments services provider GMO Payment Gateway, to offer its customers short-term loans for working capital based on their credit history.

Shares of second-hand housing renovation specialist Katitas were also strong. It continues to grow rapidly as demand for its detached used homes remains strong. There are about 8 million empty or abandoned homes across Japan and this figure continues to rise each year given Japan's demographics and the trend towards urbanisation. This provides Katitas with an abundant supply of houses to choose from, which it then renovates to a high standard and sells to first time buyers at a price much lower than a comparable new build. Katitas is nearly ten times larger than its closest competitor in terms of units sold, giving it a strong competitive edge. Scientific and semiconductor equipment manufacturer JEOL, also made a significant positive contribution to performance. Following the withdrawal of a key competitor, JEOL's position in the scientific equipment business has improved considerably and it is seeing margins improve as a result. In semiconductor equipment, JEOL's new product, which it has co-developed with Intel subsidiary IMS, is seeing exceptionally strong demand as it helps reduce costs and time in the semiconductor manufacturing process. It also enables the production of more complex semiconductor chips. This is proving to be a significant driver of earnings for the company and its long-term growth prospects look very exciting.

Unlisted holding Moneytree also continues to do well operationally. It is now working with all the megabanks in Japan as well as a host of regional banks. Its artificial intelligence enabled customer management software is seeing rising adoption across numerous financial institutions and the company is adding new features to make the software more comprehensive. The unique characteristics and growth potential of Moneytree is gaining wider recognition amongst other venture capital investors. The company recently completed a funding round where it was valued at more than twice the amount we paid for it in 2017. We are continuing to engage with many other such exciting and fast-growing unlisted companies in Japan and see this area as an important source of new ideas.

Online cosmetics retailer iStyle was the largest negative contributor to performance over the past year. It recently launched a software-as-a-service package that allows cosmetics companies to track the online and offline shopping behaviour of consumers. Unfortunately, adoption of this new service has been very slow. Concurrently, the company has seen a collapse in sales from its key Hong Kong and Chinese markets owing to ongoing political unrest and general economic weakness. All of this has forced management to revise down their medium-term financial targets leading to a loss of credibility amongst investors. Japan's leading online takeaway operator Demae-Can (formerly known as Yume No Machi) also suffered from a weak share price as management continue to make heavy upfront investments to fend off the challenge from Uber Eats. This has resulted in the company making losses in the near term. Fabless semiconductor manufacturer Megachips reported significant losses following an ongoing restructuring program. As part of this, the company is exiting numerous loss-making businesses and is focussing on its most profitable chip business with Nintendo as well as its silicon-based timing device business. In the long-run, we believe the current measures will result in a sustainably profitable and better-quality business.



The trend towards urbanisation provides Katitas with an abundant supply of homes for renovation in regional areas.

© Getty Images AsiaPac.

Portfolio

We pay less attention to the benchmark and focus more on a company's individual attractions. Consequently, Shin Nippon's active share continues to be high at 94%, implying just a 6% overlap with the comparative index. Portfolio turnover was 17.7% which remains in line with our philosophy of being patient and long-term investors with an investment horizon of at least five to ten years. We however did make some changes to the portfolio over the past year.

Among the new holdings bought was Kitanotatsujin, a specialist online cosmetics retailer with a differentiated business model. It operates a subscription model whereby consumers receive a selection of personalised cosmetic products for a monthly fee. The company doesn't use traditional advertising, relying instead on its in-house team of data analysts to monitor consumer behaviour and engage in targeted advertising. It currently has a significant waiting list for its recently launched skincare products. Given its proven track record of developing premium functional cosmetics that consumers like, we believe the company can grow rapidly for a number of years. Kumiai Chemical was another new purchase over the year. This is a niche chemicals company that makes the active chemical ingredient used in a range of highly effective and safe herbicides. Its flagship product 'AXEEV' is seeing exceptionally strong growth in the US and the company has recently gained approval to sell this in Latin America and India, both of which are very large end markets. We also took a holding in Descente, a Japanese brand of sporting goods. The company has historically been mismanaged by the founding family, but trading company Itochu recently took a controlling stake and has brought in new management in a bid to revive the flagging brand. In addition, leading Chinese sportswear company Anta Sports has recently formed a capital and business alliance with Descente and we believe this could result in significant growth opportunities for the company in China. Software companies Oro and Cybozu were also among the new additions to the portfolio. Both companies sell cloud-based software to small and medium sized businesses, enabling them to automate a number of functions, thereby reducing their labour intensity.

We also sold some stocks over the past year. Asics, a leading global brand of running shoes, continues to suffer as management have failed to respond adequately to competitive pressures, resulting in the company falling behind its traditional rivals like Nike and Adidas. We also sold our holding in high-end condominium builder Mugen Estate as it is facing a perfect storm of rising land acquisition costs and declining demand. It also has a very weak balance sheet that puts it in a precarious financial position. Longstanding holding ZOZO (formerly known as Start Today) was the subject of a tender offer by Z Holdings (formerly known as Yahoo Japan). We followed the dynamic founder of ZOZO in tendering a large part of our shares in the offer as we didn't have any conviction in the future growth prospects of ZOZO as part of the Yahoo Japan group and without its founder at the helm. The remainder of our holding in ZOZO was subsequently sold in the open market.

Outlook

As noted in our half yearly update, global markets continue to experience high levels of uncertainty and Japan is no exception. The slowdown in economic growth across many large economies is being exacerbated by the ongoing trade war between the US and China. In addition, the coronavirus pandemic is resulting in sharp falls across global equity markets. However, for us, as patient and long-term growth investors, the current environment is giving rise to numerous exciting investment opportunities. Many high quality and rapid growth companies, including some that we currently own, are seeing sharp declines in their share price that appear to be divorced from the fundamental long-term attractions of these businesses. Contrary to the prevailing pessimistic sentiment, we remain excited at the prospect of investing in these businesses. We are confident that the inherent strengths of their business models will enable them to deliver attractive long-term returns for patient shareholders.

Baillie Gifford & Co
16 March 2020

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 four pages.

Top Ten

Bengo4.com

2.8% of total assets

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

Outsourcing

2.7% 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 (PEOs), 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.

MonotaRO

2.7% 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.

Infomart

2.6% of total assets

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

Katitas

2.5% 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.

Horiba

2.5% of total assets

Horiba makes analysers for a range of applications such as car engines, semiconductors, medical devices and scientific research. It has strong global competitive positions and a good financial record. We are particularly excited by its exposure to the automotive sector, where it has an 80% market share in motor exhaust gas analysers which are seeing strong growth in demand owing to tightening emissions standards and new fuel technology. It is also slowly building a strong position in EVs with respect to testing for batteries, drivetrains and other critical modules. In the medical sector Horiba's haematology analysers are also seeing buoyant demand and its semiconductor business is benefitting significantly from the ongoing investment globally in new chip capacity.

Nihon M&A Center

2.5% 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.

JEOL

2.5% of total assets

JEOL is a specialist manufacturer of high-powered microscopes and other scientific analysis equipment. The company has strong global market positions in its niche markets which are growing on the back of increased R&D spending both by academia and the corporate sector. The company has a history of developing new products targeted at these areas. As an example, it has recently developed a direct electron beam mask writer that is used in the early stages of the semiconductor development process to etch circuit patterns onto a silicon substrate. This could disrupt the current method of using mask blanks to indirectly transfer patterns onto silicon substrates and open up a significant market opportunity for the company.

M3

2.5% of total assets

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

Peptidream

2.4% 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.



Peptidream has developed a system that seeks to maximise the advantages and remove the limitations of existing drug discovery.



Descente has a portfolio of owned and licensed brands including Descente, Le Coq Sportif, Umbro and Srixon.

© Bloomberg/Getty Images.

New Buys

Cybozu

0.4% of total assets

Cybozu is a software-as-a-service business. It develops tools, mainly for smaller and medium-sized businesses, which support team collaboration and better working practices. Its best known product is called Kintone, a cloud-based data and workflow management platform which it launched in 2011. Its products are low cost and can be customised so that non-IT personnel can easily modify the software to suit their needs. Cybozu has a subscription-based model which means that this is a very high margin business. There is an ongoing shift amongst corporate Japan in terms of improving worker efficiency and productivity improvement software such as Cybozu's are in high demand. Given the potential size of the customer base and the sticky nature of customers when it comes to ERP software in general, we think the company has very attractive long-term growth prospects.

Descente

0.6% of total assets

Descente is a sportswear manufacturer. It has a portfolio of owned and licensed brands which include names like Descente, Le Coq Sportif, Umbro and Srixon. Its portfolio of brands varies by price and category. For example, Descente is predominantly a high-end skiing and active-wear brand whereas Umbro is more of a mid-market brand best known for football. It has a heritage in performance sportswear, backed by research and development, which feeds into its product range, particularly at the higher end. Roughly 50% of its revenue comes from South Korea and 40% from Japan. China is a big opportunity for Descente where it has a joint venture with Anta Sports, China's largest sportswear brand by revenue. It appointed a new president in June 2019 signalling less of a reliance on the founding family. This followed on from trading house Itochu upping its stake in Descente to around 40%. This rejig should give Descente fresh impetus and it has set out plans to be more aggressive in China and refocus on profitability in Japan. It also seems confident that a downturn in its South Korea business is temporary in nature. On top of this, Olympic sporting years are ahead in both Japan and China. This, along with health and well-being increasingly becoming a policy lever, should be helpful. Overall, an improving demand backdrop along with a more focussed strategy should mean sales and profit can grow meaningfully from here.

Kitanotatsujin

1.8% of total assets

Kitanotatsujin is an online retailer of own-branded functional cosmetics and skincare products. It is run by its young and dynamic founder who retains a large stake in the business. Kitanotatsujin has developed a unique business model where it charges customers a monthly or annual subscription fee. Its products are available only on its own website and the company develops these products to treat specific health and skin ailments. It takes a very scientific and data-centric approach to product development, marketing and monitoring of its products. This has resulted in a high level of efficiency in terms of its spending on these activities, thereby allowing the company to make very attractive margins due to high repeat subscriptions. The company seems to have carved a niche for itself with the broader cosmetics industry in Japan and we think the growth opportunity for it could be quite significant.

Kumiai Chemical

0.9% of total assets

Kumiai Chemical is an R&D type agro-chemicals manufacturer. It researches, manufactures and licenses out chemical compounds for use as active ingredients in end products like herbicides and earns royalties in return. About 40% of sales come from overseas markets. It also sells in Japan through ZEN-NOH, one of the largest agricultural co-ops. Kumiai specialises in developing highly potent herbicides specifically for herbicide-resistant weeds. It typically takes around 10 years to develop such herbicides and Kumiai has a proven track record of bringing innovative products to market. One example is AXEEV, an active ingredient that Kumiai developed in 2011 that can be used as a herbicide on all cereals except rice. It is effective on a wide range of weeds, especially those resistant to glyphosate, a commonly used herbicide. Global food production is struggling to keep up with demand amid a natural limit to arable land and the emergence of herbicide resistant super-weeds is affecting yields. Products like AXEEV that address this issue are increasingly being sought after. The potential market size for products like AXEEV is huge and global in nature. Most of the current sales come from North America but Kumiai is expanding into Latin America and Asia. It has built a portfolio of similar, highly effective compounds for various crops that it plans to bring to the market over the next few years. All of its products are patent protected and major global agro-chemical companies such as BASF and NuFarm have licensed Kumiai's compounds.

Litalico

0.5% of total assets

Litalico provides training and employment assistance for disabled people and educational services for children with developmental difficulties. It targets the roughly 5 million adults and children in Japan who suffer from cognitive and mental disabilities. The Japanese government has put in place policies to improve access and employment opportunities for disabled people, especially in view of the upcoming Paralympic Games to be held in Tokyo in 2020. This should benefit the likes of Litalico that is one of the few players with nationwide coverage. The company is also developing new businesses to support its core operation of providing training and employment. These include computer programming for kids, financial planning for families with disabled members, and after school and day-care services. We think the growth opportunity for the company could be quite attractive given these tailwinds. It is also run by a young and dynamic president who owns a large stake in the business.

Oro

0.7% of total assets

Oro is an ERP software vendor focusing on the SME market. Its core product is Zac Enterprise, a comprehensive cloud-based software product. It is built with a special 'parametric design' which means that it comes with a database of nearly 14,000 parameters that can be easily configured by the end-user even without a high level of technical expertise. Each parameter allows the user to add new functions based on their requirement. In short, this is a highly customisable software that allows for speedy implementation and that can be dynamically adjusted to suit the varying needs of an end user. Zac is an affordable software package even for the smallest of SMEs so barriers to adoption should be quite low. Zac allows for automating tasks such as marketing, real-time project management, cost accounting, expense management and procurement, to name a few. SMEs in Japan have under-invested in IT for many years so the level of IT adoption and sophistication is quite low. Coupled with labour shortage, the demand backdrop for Oro's products seems quite positive. This is a founder run company where both founders own nearly 60% of the shares, thereby ensuring strong alignment with minorities. Given the favourable demand backdrop and the quality of its product, Oro has the potential to grow its sales and profits at a rapid pace for a number of years.



Kumiai Chemical specialises in developing highly potent herbicides specifically for herbicide resistant weeds.

Snow Peak

0.4% of total assets

Snow Peak is Japan's leading brand of high-end camping items with a line-up of roughly 800 products. It has a strong reputation within Japan's camping community and has a dedicated and growing user-base. Camping as a recreational activity is seeing strong growth in Japan as an increasing number of 'second' baby boomers (those born in the early 1970s) and young families embrace this form of recreation. In the US, where the company is expanding aggressively, roughly 1 in 3 households now undertake camping, representing a large market for Snow Peak. The company is run by a father (founder) and daughter duo who between them own nearly 30% of the company, thereby ensuring strong alignment. The daughter is the chief designer of Snow Peak's products and has a background in fashion and design. We think the long-term growth prospects for the company could be quite exciting given the favourable industry background and its strong brand.

Tsugami

1.3% of total assets

Tsugami is a machine tool manufacturer specialising in automatic lathes. It has high market shares in Japan and overseas, most notably China. It generates 80% of sales from overseas so the mature domestic market is of less importance to its long-term growth prospects. Within overseas, China accounts for just over half of total sales and is growing rapidly. Sales in China are undertaken by a subsidiary listed in Hong Kong and 71% owned by Tsugami. The end markets for Tsugami's products in China are huge and growing, and the company has built a strong reputation for product quality and service reliability given its nationwide



Snow Peak has a strong reputation within Japan's camping community.

© Bloomberg/Getty Images.

network. Although quite small at the moment, Tsugami also has an Indian business that is growing fast in a market that is very immature. Management have indicated they might list the Indian subsidiary in the near future, following the same playbook as the Hong Kong subsidiary.

Investment Changes

	Valuation at 31 January 2019 £'000	Net acquisitions/ (disposals) £'000	Appreciation/ (depreciation) £'000	Valuation at 31 January 2020 £'000
Equities:				
Consumer Discretionary	87,989	(911)	(16,133)	70,945
Communication Services	25,917	2,514	2,680	31,111
Consumer Staples	24,373	18,576	2,574	45,523
Financials	8,934	4,119	1,456	14,509
Healthcare	68,113	(12,767)	21,666	77,012
Industrials	138,430	(2,385)	10,682	146,727
Information Technology	109,263	(2,046)	12,410	119,627
Materials	6,565	6,833	(1,811)	11,587
Real Estate	10,290	(1,126)	4,428	13,592
Total investments	479,874	12,807	37,952	530,633
Net liquid assets*	6,227	(846)	(213)	5,168
Total assets	486,101	11,961	37,739	535,801
Bank loans	(51,946)	(32)	(107)	(52,085)
Shareholders' Funds	434,155	11,929	37,632	483,716

* See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

Baillie Gifford Statement on Stewardship

Reclaiming Activism for Long-Term Investors

Baillie Gifford's over-arching ethos is that we are 'actual' investors. We have a responsibility to behave as supportive and constructively engaged long-term investors. We invest in companies at different stages in their evolution, across vastly different industries and geographies and we celebrate their uniqueness. Consequently, we are wary of prescriptive policies and rules, believing that these often run counter to thoughtful and beneficial corporate stewardship. Our approach favours a small number of simple principles which help shape our interactions with companies.

Our Stewardship Principles

Prioritisation of long-term value creation

We encourage company management and their boards to be ambitious and focus their investments on long-term value creation. We understand that it is easy for businesses to be influenced by short-sighted demands for profit maximisation but believe these often lead to sub-optimal long-term outcomes. We regard it as our responsibility to steer businesses away from destructive financial engineering towards activities that create genuine economic value over the long run. We are happy that our value will often be in supporting management when others don't.

A constructive and purposeful board

We believe that boards play a key role in supporting corporate success and representing the interests of minority shareholders. There is no fixed formula, but it is our expectation that boards have the resources, cognitive diversity and information they need to fulfil these responsibilities. We believe that a board works best when there is strong independent representation able to assist, advise and constructively test the thinking of management.

Long-term focused remuneration with stretching targets

We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create alignment with genuine long-term shareholders. We are accepting of significant pay-outs to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. We think that performance hurdles should be skewed towards long-term results and that remuneration plans should be subject to shareholder approval.

Fair treatment of stakeholders

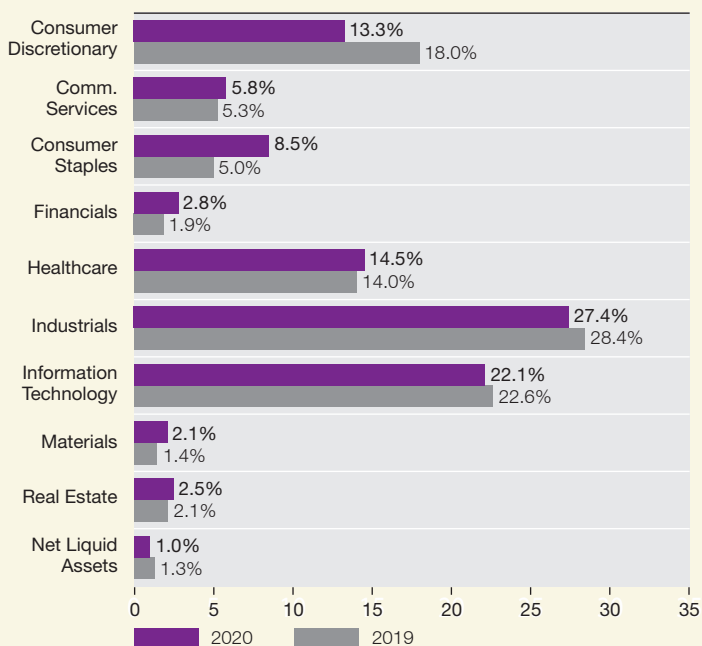
We believe it is in the long-term interests of companies to maintain strong relationships with all stakeholders, treating employees, customers, suppliers, governments and regulators in a fair and transparent manner. We do not believe in one-size-fits-all governance and we recognise that different shareholder structures are appropriate for different businesses. However, regardless of structure, companies must always respect the rights of all equity owners.

Sustainable business practices

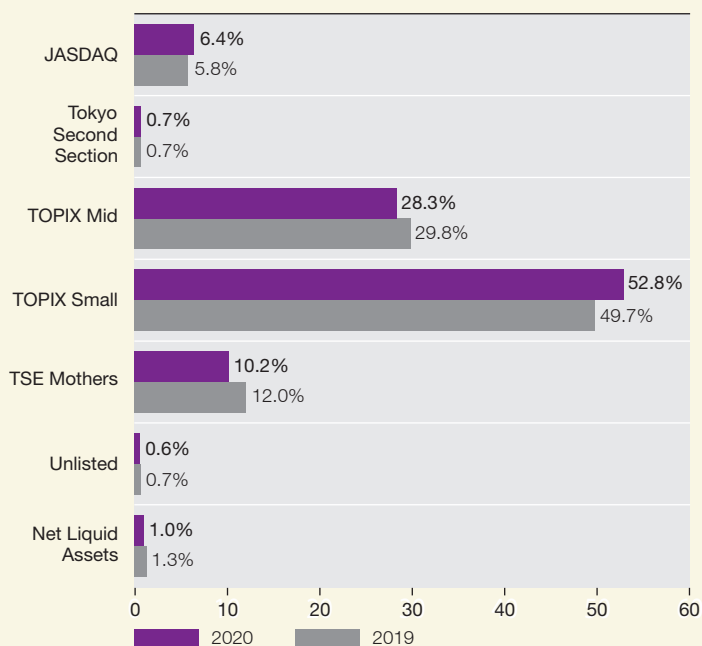
We look for companies to act as responsible corporate citizens, working within the spirit and not just the letter of the laws and regulations that govern them. We believe that corporate success will only be sustained if a business's long-run impact on society and the environment is taken into account. Management and boards should therefore understand and regularly review this aspect of their activities, disclosing such information publicly alongside plans for ongoing improvement.

Distribution of Total Assets

Industry

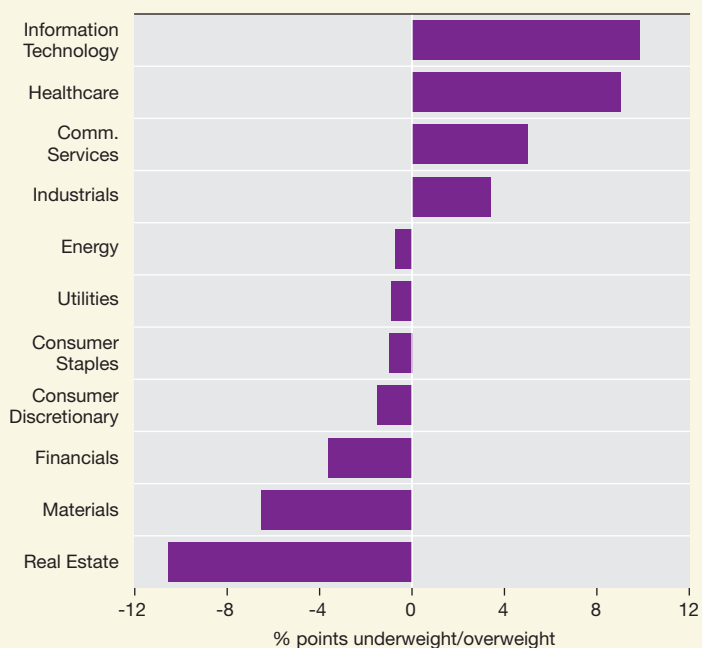


Listings

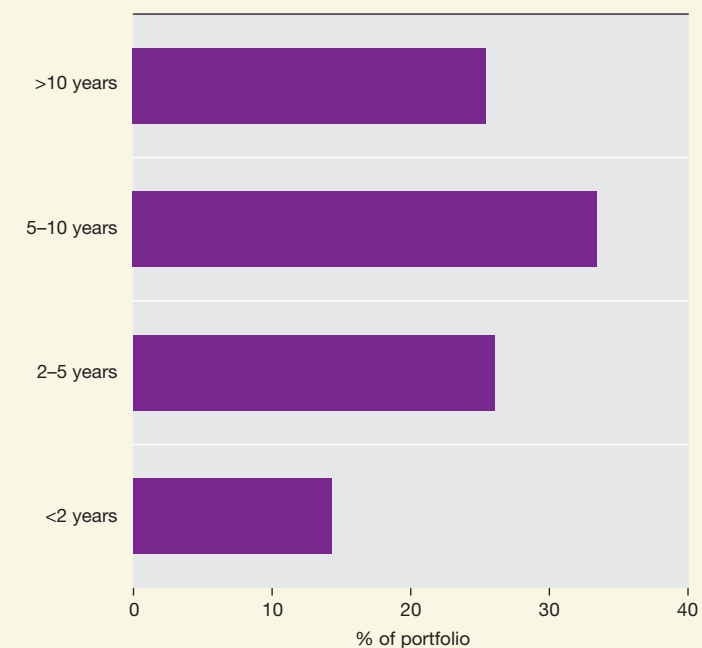


Portfolio Weightings*

Relative to comparative index



Holding Period



* Source: Baillie Gifford/StatPro and relevant underlying index providers. See disclaimer on page 62 and Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

List of Investments at 31 January 2020

Name	Business	2020 Value £'000	% of total assets	Absolute † performance %	2019 Value £'000
Bengo4.com	Online legal consultation	14,835	2.8	21.5	15,347
Outsourcing	Employment placement services	14,502	2.7	(16.7)	13,261
MonotaRO	Online business supplies	14,477	2.7	16.3	12,500
Infomart	Internet platform for restaurant supplies	14,171	2.6	52.8	10,548
Katitas	Real estate services	13,592	2.5	45.8	10,154
Horiba	Manufacturer of measuring instruments	13,470	2.5	33.0	11,098
Nihon M&A Center	M&A advisory services	13,441	2.5	18.4	12,877
JEOL	Manufacturer of scientific equipment	13,282	2.5	84.0	6,779
M3	Online medical services	13,184	2.5	106.2	6,040
Peptidream	Drug discovery and development platform	12,998	2.4	13.3	11,630
Raksul	Internet based services	12,941	2.4	18.4	10,683
Asahi Intecc	Specialist medical equipment	12,238	2.3	29.7	16,047
GMO Payment Gateway	Online payment processing	12,128	2.3	27.3	11,471
Brainpad	Business data analysis	11,802	2.2	19.1	8,062
Harmonic Drive	Robotic components	11,068	2.1	32.9	6,883
Cosmos Pharmaceuticals	Drugstore chain	10,709	2.0	16.2	7,810
Sho-Bond	Infrastructure reconstruction	10,613	2.0	19.6	9,432
Shoei	Manufactures motor cycle helmets	10,576	2.0	36.6	7,368
Technopro Holdings	IT staffing	10,222	1.9	32.2	7,784
Kitanotatsujin	Online cosmetics retailer	9,873	1.8	32.2#	–
Top 20		250,122	46.7		
Demae-Can (formerly Yume No Machi)	Online meal delivery service	9,712	1.8	(28.6)	8,562
OSG	Manufactures machine tool equipment	9,375	1.8	(13.9)	11,155
Nifco	Value-added plastic car parts	9,079	1.7	12.1	8,267
Healios K.K.	Regenerative medicine	8,878	1.7	10.6	9,323
Cocokara Fine	Drugstore chain	8,583	1.6	36.1	6,396
iStyle	Beauty product review website	8,264	1.5	(42.5)	12,691
eGuarantee	Guarantees trade receivables	7,846	1.5	26.9	6,305
Noritsu Koki	Holding company with interests in biotech and agricultural products	7,592	1.4	(6.4)	8,631
Broadleaf	Online platform for buying car parts	7,175	1.3	12.3	6,684
Tsugami	Manufacturer of automated machine tools	6,947	1.3	3.3#	–
Hamakyorex	Third party logistics	6,943	1.3	(13.0)	7,519
Pigeon	Baby care products	6,924	1.3	(5.3)	6,146
Anest Iwata	Manufactures compressors and painting machines	6,543	1.2	10.5	5,232
Sato Holdings	Barcode and RFID technology	6,346	1.2	24.9	6,495
Gumi	Mobile games developer	6,293	1.2	16.0	2,733
Torex Semiconductor	Semiconductor company	6,107	1.1	22.7	4,900
WDB Holdings	Human resource services	6,067	1.1	6.1	5,758
Seria	Discount retailer	5,904	1.1	(8.1)	5,471
KH Nechem	Chemical manufacturer	5,559	1.0	(4.0)	5,319
Nippon Ceramic	Electronic component manufacturer	5,529	1.0	(0.1)	8,497
Poletowin Pitcrew	Game testing and internet monitoring	5,520	1.0	7.0	4,610
Nakanishi	Dental equipment	5,502	1.0	6.1	5,802
Iriso Electronics	Specialist auto connectors	5,471	1.0	(4.2)	5,772
Kitz	Industrial valve manufacturer	5,449	1.0	(11.5)	8,535
Megachips	Electronic components	5,428	1.0	(37.4)	11,626
Nabtesco	Robotic components	5,396	1.0	15.4	4,121
Digital Garage	Internet business investor	5,357	1.0	57.5	4,073
Nikkiso	Industrial pumps and medical equipment	5,173	1.0	40.0	2,976

Name	Business	2020 Value £'000	% of total assets	Absolute † performance %	2019 Value £'000
Kumiai Chemical	Specialised agrochemicals manufacturer	4,959	0.9	2.9#	–
Optex	Infrared detection devices	4,853	0.9	(21.4)	5,626
Akatsuki	Mobile games developer	4,801	0.9	(19.4)	3,008
JP Holdings	Operates child-care facilities	4,707	0.9	15.2	4,038
Uzabase	Financial data services	4,688	0.9	18.3	811
Aeon Delight	Shopping mall maintenance	4,350	0.8	(4.3)	3,960
H.I.S.	Discount travel agency and theme parks	4,286	0.8	(37.5)	10,392
Calbee	Branded snack foods	4,259	0.8	4.7	4,022
Findex	Healthcare software developer	4,212	0.8	97.6	2,608
Locondo	E-commerce services provider	3,994	0.7	(40.0)	6,384
Oro	Develops and provides enterprise planning software	3,805	0.7	24.3#	–
Yonex	Sporting goods	3,493	0.7	(1.1)	3,127
CyberAgent	Japanese internet advertising and content	3,350	0.6	27.2	3,049
Descente	Manufactures athletic clothing	3,276	0.6	19.0#	–
Moneytree K.K. Class B Preferred®	AI based fintech platform	3,260	0.6	0.2	3,253
Daikyonishikawa	Automobile part manufacturer	3,224	0.6	(30.1)	4,861
SILX	Outsources overseas production	3,183	0.6	(13.4)	3,227
Crowdworks	Crowd sourcing services	3,050	0.6	(39.9)	6,446
Litalico	Provides employment support and learning support services for people with disabilities	2,732	0.5	59.3#	–
Morpho	Image processing technologies	2,524	0.5	43.1	1,186
Cybozu	Develops and markets internet and intranet application software for businesses	2,252	0.4	14.6#	–
Weathernews	Weather information services	2,048	0.4	36.9	1,538
Dream Incubator	Early stage business support	1,974	0.4	12.6	1,818
Tenpos Holdings	Refurbished kitchen equipment retailer	1,927	0.4	18.8	1,628
Snow Peak	Designs & manufactures outdoor lifestyle goods	1,898	0.4	(32.3)#	–
Freakout Holdings	Digital marketing technology	1,832	0.3	(36.6)	1,614
Nanocarrier	Biotech company	1,543	0.3	(16.5)	2,040
Takemoto Yohki	Plastic containers for cosmetics	1,069	0.2	(37.8)	1,246
Total investments		530,633	99.0		
Net liquid assets*		5,168	1.0		
Total assets		535,801	100.0		
Bank loans		(52,085)	(9.7)		
Shareholders' funds		483,716	90.3		

† Absolute performance (in sterling terms) has been calculated on a total return basis over the period 1 February 2019 to 31 January 2020.

Source: Baillie Gifford/StatPro and relevant underlying index data providers. See disclaimer on page 62.

Figures relate to part period returns where the investment has been purchased in the period.

® Unlisted holding.

* See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

Past performance is not a guide to future performance.

Portfolio by Investment Theme at 31 January 2020

Global Brands

Name	% of total assets
Akatsuki	0.9
Calbee	0.8
Descente	0.6
Gumi	1.2
Pigeon	1.3
Shoei	2.0
Snow Peak	0.4
Yonex	0.7
Total	7.9

Healthcare

Name	% of total assets
Asahi Intecc	2.3
Cocokara Fine	1.6
Cosmos Pharmaceutical	2.0
Findex	0.8
Healios K.K.	1.7
Nakanishi	1.0
Nanocarrier	0.3
Noritsu Koki	1.4
Peptidream	2.4
WDB Holdings	1.1
Total	14.6

Niche Manufacturers

Name	% of total assets
Anest Iwata	1.2
Daikyonishikawa	0.6
Harmonic Drive Systems	2.1
Horiba	2.5
IRISO Electronics	1.0
Jeol	2.5
KH Neochem	1.0
Kitz	1.0
Kumiai Chemical	0.9
Megachips	1.0
Morpho	0.5
Nabtesco	1.0
Nifco	1.7
Nikkiso	1.0
Nippon Ceramic	1.0
Optex	0.9
OSG	1.8
Sato Holdings	1.2
Takemoto Yohki	0.2
Torex Semiconductor	1.1
Tsugami	1.3
Total	25.5

Online Disruptors

Name	% of total assets
Bengo4.com	2.8
Brainpad	2.2
Broadleaf	1.3
Crowdworks	0.6
CyberAgent	0.6
Digital Garage	1.0
Dream Incubator	0.4
Freakout Holdings	0.3
GMO Payment Gateway	2.3
Infomart	2.6
Istyle	1.5
Kitanotatsujin	1.8
Locondo	0.7
M3	2.5
Moneytree K.K. Class B Preferred [Ⓢ]	0.6
MonotaRO	2.7
Raksul	2.4
Weathernews	0.4
Demae-Can (formerly Yume No Machi)	1.8
Total	28.5

Outsourcing/Services

Name	% of total assets
Aeon Delight	0.8
Cybozu	0.4
H.I.S.	0.8
Hamakyorex	1.3
JP Holdings	0.9
Litalico	0.5
Nihon M&A Center	2.5
Oro	0.7
Outsourcing	2.7
Poletowin Pitcrew Holdings	1.0
Seria	1.1
Sho-Bond Holdings	2.0
SIIX	0.6
Technopro Holdings	1.9
Tenpos Holdings	0.4
Total	17.6

Real Estate and Financials

Name	% of total assets
eGuarantee	1.5
Katitas	2.5
Uzabase	0.9
Total	4.9

Net liquid assets represent 1.0% of total assets. See Glossary of Terms and Alternative Performance Measures on page pages 63 and 64.

[Ⓢ] Unlisted holding.

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‡ %
2010	51,486	7,917	43,569	27.9	23.1	(17.3)
2011	64,429	8,763	55,666	35.8	32.7	(8.8)
2012	64,362	9,557	54,805	35.2	33.5	(4.9)
2013	77,074	7,948	69,126	42.3	44.8	6.0
2014	133,828	19,867	113,961	61.6	65.6	6.5
2015	147,529	18,894	128,635	68.7	64.2	(6.6)
2016	182,817	19,427	163,390	86.2	89.6	3.9
2017	257,448	23,576	233,872	115.5	119.6	3.5
2018	449,289	47,877	401,412	168.7	184.4	9.3
2019	486,101	51,946	434,155	158.5	171.2	8.0
2020	535,801	52,085	483,716	172.8	170.4	(1.4)

* 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 fair value. See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

‡ (Discount)/premium is the difference between Shin Nippon's quoted share price and its underlying net asset value (after deducting borrowings at fair value) expressed as a percentage of net asset value. See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 62.

Revenue

Year to 31 January	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings/(loss) per ordinary share p	Ongoing charges‡ %
2010	868	24	0.02	1.55
2011	1,108	114	0.07	1.50
2012	1,219	98	0.06	1.49
2013	1,165	(22)	(0.01)	1.53
2014	1,259	(239)	(0.14)	1.19
2015	1,554	(374)	(0.20)	1.14
2016	1,798	(290)	(0.16)	1.02
2017	2,912	101	0.05	0.96
2018	3,496	(227)	(0.11)	0.89
2019	5,092	106	0.04	0.77
2020	6,006	790	0.28	0.73

‡ Calculated as total operating costs divided by average net asset value (with borrowings at fair value). See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

¶ Total assets (including all debt used for investment purposes) less all cash and cash equivalents divided by shareholders' funds. See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

§ Total assets (including all debt used for investment purposes) divided by shareholders' funds. See Glossary of Terms and Alternative Performance Measures on pages 63 and 64. Source: Baillie Gifford.

Gearing Ratios

Gearing ¶ %	Potential gearing § %
17	18
13	16
14	17
10	11
11	17
9	15
9	12
8	10
11	12
11	12
10	11

Cumulative Performance (taking 2010 as 100)

At 31 January	Net asset value per share^	Share price	Comparative index**
2010	100	100	100
2011	128	142	119
2012	126	145	120
2013	152	194	124
2014	221	284	145
2015	246	278	164
2016	309	389	182
2017	414	519	246
2018	605	800	287
2019	568	742	265
2020	619	739	290

Compound annual returns

5 year	20.3%	21.6%	12.1%
10 year	20.0%	22.1%	11.2%

^ Net asset value per ordinary share has been calculated after deducting borrowings at fair value. See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

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

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 62.

All per share figures have been restated for the five for one share split on 21 May 2018.

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. Formerly the chairman of Securities Trust of Scotland, he served on its board from 2005 until 2017 and has more than 19 years' experience of the investment trust sector. He also holds appointments with several charities.

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 29 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.

Professor Sethu Vijayakumar

Professor Vijayakumar was appointed Director in 2018. He is the Professor of Robotics at the University of Edinburgh and the Director of the Edinburgh Centre for Robotics. He holds additional responsibility as the Programme Director for Artificial Intelligence at The Alan Turing Institute, London, where he helps shape the UK National roadmap in Robotics and Autonomous Systems. He is a world-renowned roboticist, pioneering the data driven control of several iconic robotic platforms including a recent collaboration with the NASA Johnson Space Centre on the Valkyrie humanoid robot being prepared for unmanned robotic pre-deployment missions to Mars. He is a Fellow of the Royal Society of Edinburgh, a judge on BBC Robot Wars and winner of the 2015 Tam Dalyell Prize for Excellence in engaging the public with science. Sethu has strong ties with Japan having spent seven years in Tokyo during his PhD and postdoctoral training, still closely collaborates with several R&D firms and multinationals on translational research projects and is a fluent Japanese speaker.

Jamie Skinner CA

Jamie Skinner was appointed a Director in 2018 and is Chairman of the Audit Committee. Jamie is a qualified accountant and a fellow of the Chartered Institute for Securities and Investment. He joined Cazenove & Co in 1989 as a corporate finance executive working principally on investment companies and also other sector IPO activity, and in 1995 he was appointed Managing Director of the Johannesburg office. In 1999 he joined Martin Currie Investment Management Limited as a director and in 2014 was appointed Head of Client Services. He served as President and CEO of The China Fund, Inc. until 2012, President and CEO of The Taiwan Fund, Inc. until 2014 and President of the Martin Currie Business Trust until 2015. He also served on the boards of Martin Currie, Inc. and the Martin Currie Japan Absolute Return Fund up to his retirement from Martin Currie on 31 July 2018. Jamie is a non-executive director of Ediston Property Investment Company plc and the Asian Opportunities Absolute Return Fund Limited and Audit Chair of the Ashoka India Equity Trust plc.

Kevin Troup ACA

Kevin Troup was appointed to the Board with effect from 1 March 2020. Kevin qualified as a Chartered Accountant in 1993 with Coopers & Lybrand. He started his Japanese investment career with Scottish Life in 1995 later becoming Head of Japan. In 2000 he joined Martin Currie Investment Management managing Japanese Smaller Companies. In 2004 he launched two Japanese Funds, a Mid-Cap Fund and was co-manager at launch for the Daijuro Absolute Return Fund responsible for picking small cap positions. Kevin joined the Global team at Standard Life Investments in 2010 launching a new Global Equity Income product and with responsibility for Japanese investments within a Global franchise. He retired in 2018 and is now a non-executive Director at Baring Fund Managers Limited and at TPI Fund Managers Limited. He is also on the Investment Committee at The National Trust for Scotland and on the board of The Royal Caledonian Curling Club.

The Directors listed above were in office during the year to 31 January 2020 (with the exception of Kevin Troup who was appointed Director on 1 March 2020) and remained in office as at 16 March 2020.

All Directors are members of the Nomination and Audit Committees with the exception of Mr Donaldson who is not a member of the Audit Committee.

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 ten 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 £186 billion at 13 March 2020. 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 1,300.

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 2020.

Corporate Governance

The Corporate Governance Report is set out on pages 30 to 32 and forms part of this Report.

Managers 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. Dealing activity and transaction reporting have been further sub-delegated to Baillie Gifford Overseas Limited.

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 for the year to 31 January 2020 was 0.75% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remainder. The fees are calculated and paid on a quarterly basis.

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 2019, the Board is in agreement that the continuing appointment of Baillie Gifford & Co Limited as AIFM and the delegation of investment management services to Baillie Gifford & Co on the terms agreed, is in the interest of shareholders as a whole. This is due to: the strength and experience of the investment management team; the Managers' commitment to the investment trust sector as a whole and to the Japanese markets in particular; and very good long-term investment performance in relation to investment policy and strategy. The Board also recognises the high quality of the Managers' secretarial, administrative and corporate governance functions.

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

Depository

In accordance with the AIFMD, the AIFM must appoint a Depository to the Company. The Bank of New York Mellon (International) Limited has been appointed as the Company's Depository.

The Depository's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The custody function is also undertaken by The Bank of New York Mellon (International) Limited ('the Custodian').

Directors

Information about the Directors, including their relevant experience, can be found on page 25.

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

Mr KJ Troup was appointed to the Board on 1 March 2020 and is required to seek election by shareholders at the Annual General Meeting. The Directors believe that the Board will benefit from his extensive knowledge and experience and recommend his election to shareholders.

In accordance with the principles of the UK Corporate Governance Code, all other Directors will retire at the Annual General Meeting and offer themselves for re-election.

Following formal performance evaluation, the performance of Mr MN Donaldson, Mrs MR Somerset Webb, Mr CJM Skinner and Professor S Vijayakumar 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 2020 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 279,577,485 ordinary shares of 2 pence each at 31 January 2020 (2019 – 273,452,485 ordinary shares of 2 pence each). 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 58.

Major Interests in the Company's Shares

The Company has not received any notification of major interests in the voting rights of the Company as at 31 January 2020. There have been no notifications of major interests in the Company's shares intimated up to 12 March 2020.

Annual General Meeting

Share Issuance Authority

At the last Annual General Meeting, the Directors were granted authority to issue shares up to an aggregate nominal amount of £1,833,666.50 and to issue shares or sell shares held in treasury for cash on a non-pre-emptive basis for cash up to an aggregate nominal amount of £550,154.96 representing 10% of the issued share capital of the Company as at 22 March 2019.

Such authorities will expire at the conclusion of the Annual General Meeting to be held on 14 May 2020.

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 £1,863,849.90. This amount represents 33.33% of the Company's total ordinary share capital in issue at 12 March 2020 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 £559,154.96 (representing 10% of the issued ordinary share capital of the Company as at 12 March 2020). The authorities sought in Resolutions 11 and 12 will continue until the conclusion of the Annual General Meeting to be held in 2021 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 2020 the Company issued 6,125,000 shares on a non-pre-emptive basis at a premium to net asset value on 17 separate occasions at an average price of 180.0 pence per share raising net proceeds of £11,139,000. Between 1 February and 12 March 2020 the Company did not issue any further shares.

No shares were held in treasury as at 12 March 2020.

Market Purchases of Own Shares by the Company

At the last Annual General Meeting, the Company was granted authority to purchase up to 41,234,115 ordinary shares (equivalent to 14.99% of its issued share capital). This authority expires at the forthcoming Annual General Meeting. 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 2021.

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.

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 18 to the Financial Statements.

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 Auditor

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

Subsequent to the 31 January year end, the net asset value per share fell by 29.7% (as at 13 March 2020) as the market reacted to the escalating coronavirus outbreak.

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 171,399 shares, representing approximately 0.06% of the current issued share capital of the Company.

On behalf of the Board
M Neil Donaldson
Chairman
16 March 2020

Corporate Governance Report

The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the 2018 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. 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 33). Details of the Board's view on Directors who have served on the Board for more than nine years can be found within the Independence of Directors section of this Report.

The Board

Following the appointment of Mr KJ Troup on 1 March 2020 the Board comprises six Directors, all of whom are non-executive, although Mr SCN Somerville will stand down from the Board at the Annual General Meeting.

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. Mr SCN Somerville is the Senior Independent Director. Following the retirement of Mr SCN Somerville at the conclusion of the Annual General Meeting, Mrs MR Somerset Webb will become Senior Independent Director.

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 25.

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

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

Appointments

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

Under the provisions of the Company's Articles of Association, a Director appointed during the year is required to seek election by shareholders at the next Annual General Meeting.

Independence of Directors

In accordance with the principles of the UK Corporate Governance Code, all Directors will offer themselves for re-election annually.

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

The Board is of the view that length of service will not necessarily compromise the independence or contribution of Directors of an investment trust company where continuity and experience can be of benefit to the Board. All Directors, however, will retire and offer themselves for re-election annually. The Board is not controlled by long serving Directors.

Mr SCN Somerville has served on the Board for more than nine years and is not standing for re-election at the Annual General Meeting.

Policy on Tenure of the Chairman

The Board recognises the importance of an independent and effective chairman. In the absence of exceptional circumstances, the Chairman will retire at the Annual General Meeting following the ninth anniversary of his appointment.

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	4	2	1
MN Donaldson*	4	–	1
MR Somerset Webb	4	2	1
SCN Somerville	4	2	1
S Vijayakumar	4	2	1
J Skinner	4	2	1

* MN Donaldson is not a member of the Audit Committee.

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 serving at that date.

Nomination Committee

The Nomination Committee consists of the whole Board due to the small size of the Board. 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.

Diversity Policy

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

Nurole Ltd was engaged during the year to help identify potential new directors in advance of the retirement of Mr SCN Somerville from the Board at the conclusion of the Annual General Meeting on 14 May 2020. Nurole Ltd has no other connection with the Company or its Directors.

The Committee identified the skills and experience that would be required having due regard to the benefits of diversity on the Board, and candidates were interviewed from a shortlist of names provided by Nurole Ltd. Mr KJ Troup was identified as the preferred candidate due to his knowledge and experience of Japanese small cap investments. The Committee considered Mr Troup's existing commitments and is satisfied that he is capable of devoting sufficient time to the Company. Mr Troup was appointed to the Board on 1 March 2020.

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 28 November 2019. 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 there was a diverse range of skills within the Boards and 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 35 and 36.

Audit Committee

The report of the Audit Committee is set out on pages 33 and 34.

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 FRC guidance 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014.

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, The Bank of New York Mellon (International) Limited acted as the Company's Depositary and Baillie Gifford & Co Limited as its AIFM.

The Depositary's responsibilities include cash monitoring, safe keeping of the Company's financial instruments, verifying ownership and maintaining a record of other assets and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. The Company's Depositary also acts as the Company's Custodian. The Custodian prepares reports on its key controls and safeguards which is independently reviewed by its Auditor, 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 half-yearly reports 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 62), 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 18 to the Financial Statements. Although net current liabilities are reported on the Balance Sheet, the Company's assets, which are primarily investments in quoted securities and are readily realisable (Level 1) exceed its liabilities significantly and could be sold to repay borrowings if required. 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. The Company has continued to comply with the investment trust status requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) Regulations 2011.

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 page 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, Winterflood Securities Ltd (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' Stewardship Principles are set out on page 19 and the 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
16 March 2020

Audit Committee Report

The Audit Committee consists of all Directors with the exception of the Chairman, Mr MN Donaldson. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. Mr J Skinner, 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 Auditor without any representative of the Managers being present.

Main Activities of the Committee

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

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

- The preliminary results announcement and the Annual and Interim Reports;
- The Company's accounting policies and practices;
- The regulatory changes impacting the Company;
- The fairness, balance and understandability of the Annual Report and Financial Statements and whether it provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- The effectiveness of the Company's internal control environment;
- Re-appointment, 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 99.0% 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 listed investments as at 31 January 2020 were agreed to external price sources and the portfolio holdings agreed to confirmations from the Company's Custodian.

The Managers 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 31 and 32. 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 2020 (2019 – 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.

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.

Audit Tender

Following the audit tender process in the year to 31 January 2017, the Board unanimously decided to appoint KPMG LLP as Auditor.

In recognition of underlying audit rotation requirements, the Committee intends to undertake a further tender process during the year to 31 January 2027.

Accountability and Audit

The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are set out on pages 37 to 42.

On behalf of the Board
Jamie Skinner
Audit Committee Chairman
16 March 2020

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 and an ordinary resolution for the approval of the Remuneration Policy will be put to shareholders at the forthcoming Annual General Meeting on 14 May 2020.

The Board reviewed the level of fees during the year and it was agreed that there would be no change. The Directors' fees were last increased on 1 February 2018.

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 £200,000 in aggregate. Any change to this limit requires shareholder approval.

The basic and additional fees payable to Directors in respect of the year ended 31 January 2020 and the fees payable in respect of the year ending 31 January 2021 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 2021 £	Fees as at 31 Jan 2020 £
Chairman's fee	34,500	34,500
Non-executive Director fee	23,000	23,000
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)	200,000	200,000

Annual Report on Remuneration

An Ordinary Resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditor to audit certain of the disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on page 38.

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	2020 Fees £	2020 Taxable benefits * £	2020 Total £	2019 Fees £	2019 Taxable benefits * £	2019 Total £
MN Donaldson (Chairman)	34,500	—	34,500	34,500	657	35,157
PF Charig (retired 17 May 2019)	6,900	1,267	8,167	23,000	2,897	25,897
IA McLaren (retired 17 May 2019)	7,650	—	7,650	25,500	—	25,500
MR Somerset Webb	23,000	553	23,553	23,000	—	23,000
SCN Somerville	23,000	2,069	25,069	23,000	2,565	25,565
S Vijayakumar (appointed 1 September 2018)	23,000	—	23,000	9,583	—	9,583
J Skinner (appointed 7 December 2018)	24,772	141	24,913	3,421	—	3,421
	142,822	4,030	146,852	142,004	6,119	148,123

* 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.

Directors' Interests (audited)

Name	Nature of interest	Ordinary 2p shares held at 31 Jan 2020	Ordinary 2p shares held at 31 Jan 2019
MN Donaldson	Beneficial	86,114	81,247
MR Somerset Webb	Beneficial	17,785	17,785
SCN Somerville	Beneficial	50,000	50,000
S Vijayakumar	—	—	—
J Skinner	Beneficial	17,500	17,500

The Directors are not required to hold shares in the Company. The Directors at the year end, and their interests in the Company, were as shown above. There have been no changes intimated in the Directors' interests up to 13 March 2020.

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, 98.9% were in favour, 0.7% were against and votes withheld were 0.4%. 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 (2019 – none).

Directors' Service Details

Name	Date of appointment	Due date for election/re-election
MN Donaldson	1 August 2014	AGM in 2020
MR Somerset Webb	4 October 2011	AGM in 2020
SCN Somerville*	17 June 2010	—
S Vijayakumar	1 September 2018	AGM in 2020
J Skinner	7 December 2018	AGM in 2020
KJ Troup	1 March 2020	AGM in 2020

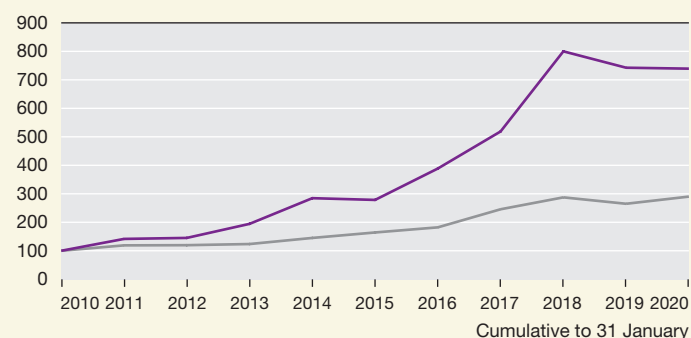
* Retiring at 2020 AGM.

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 2010)



Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 62.

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

* Total return (assuming net dividends are reinvested). See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

† The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms). See disclaimer on page 62.

Past performance is not a guide to future performance.

Approval

The Directors' Remuneration Report on pages 35 and 36 was approved by the Board of Directors and signed on its behalf on 16 March 2020.

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 United Kingdom 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 United Kingdom 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 have delegated responsibility to the Managers for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom 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 the issuer and business 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
16 March 2020

Independent Auditor's Report



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 The Baillie Gifford Shin Nippon PLC ("the Company") for the year ended 31 January 2020 which comprise 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 the Company's affairs as at 31 January 2020 and its return for the year then ended;
- the financial statements have been properly prepared in accordance UK Accounting Standards, including FRS 102, the Financial Reporting Standards applicable in the UK and Republic of Ireland;
- the financial statements 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 first appointed as auditor by the shareholders on 18 May 2017. The period of total uninterrupted engagement is for the three financial years ended 31 January 2020. 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:	£5.4m (2019:£4.8m)	
	Company financial statements as a whole	1% (2019: 1%) of Total Assets
Key audit matters		vs 2019
Recurring risk	Carrying amount of quoted 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 (unchanged from 2019), 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.

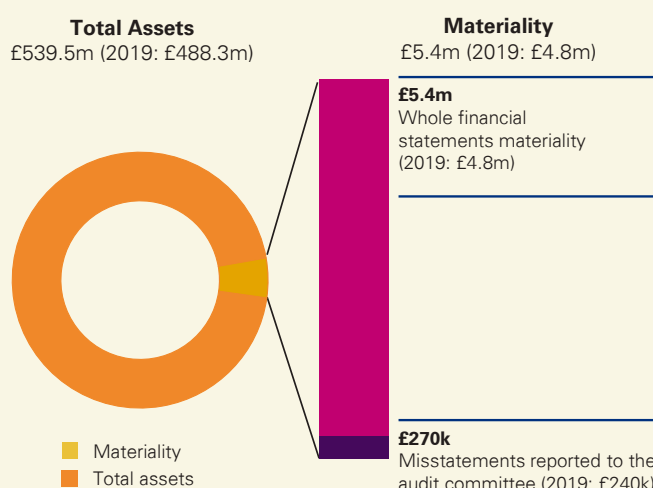
	The risk	Our response
Carrying amount of quoted investments (£527.4m; 2019: £476.6m) Refer to page 33 (Audit Committee Report), page 47 (accounting policy) and page 49 (financial disclosures).	Low risk, high value The Company's portfolio of quoted investments makes up 97.8% (2019: 97.6%) of the Company's total assets by value and is considered to be 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, quoted 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: Tests of detail: Agreeing the valuation of 100% of quoted investments in the portfolio to externally quoted prices; and Enquiry of custodians: Agreeing 100% of investment holdings in the portfolio to independently received third party confirmations from investment custodians. Our findings: We found the carrying amount of quoted investments to be acceptable (2019: acceptable).

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

Materiality for the financial statements as a whole was set at £5.4m (2019: £4.8m), determined with reference to a benchmark of total assets, of which it represents 1% (2019: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £270k (2019: £240k), 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 performed at the administrator, Baillie Gifford & Co, in Edinburgh and at our offices.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, 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
- the related statement under the Listing Rules set out on page 32 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 page 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 longer-term viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

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 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 by the Company, 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 37, 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 or other irregularities (see below), 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.

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 general commercial and sector experience and through discussion with the directors, the manager and the administrator (as required by auditing standards) the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), and its 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, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

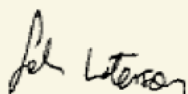
Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: the Listing Rules and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors, the manager and the administrator and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify any actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

16 March 2020

Income Statement

For the year ended 31 January

	Notes	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000
Gains/(losses) on investments	8	–	37,952	37,952	–	(32,225)	(32,225)
Currency losses	13	–	(320)	(320)	–	(3,875)	(3,875)
Income	2	6,006	–	6,006	5,092	–	5,092
Investment management fee	3	(3,023)	–	(3,023)	(2,871)	–	(2,871)
Other administrative expenses	4	(560)	–	(560)	(601)	–	(601)
Net return before finance costs and taxation		2,423	37,632	40,055	1,620	(36,100)	(34,480)
Finance costs of borrowings	5	(1,032)	–	(1,032)	(1,005)	–	(1,005)
Net return on ordinary activities before taxation		1,391	37,632	39,023	615	(36,100)	(35,485)
Tax on ordinary activities	6	(601)	–	(601)	(509)	–	(509)
Net return on ordinary activities after taxation		790	37,632	38,422	106	(36,100)	(35,994)
Net return per ordinary share	7	0.28p	13.57p	13.85p	0.04p	(13.98p)	(13.94p)

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 47 to 56 are an integral part of the Financial Statements.

Balance Sheet

As at 31 January

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Fixed assets					
Investments held at fair value through profit or loss	8		530,633		479,874
Current assets					
Debtors	9	3,141		2,706	
Cash and cash equivalents	18	5,736		5,750	
			8,877		8,456
Creditors					
Amounts falling due within one year	10	(41,112)		(2,229)	
Net current (liabilities)/assets			(32,235)		6,227
Total assets less current liabilities			498,398		486,101
Creditors					
Amounts falling due after more than one year	11		(14,682)		(51,946)
Net assets			483,716		434,155
Capital and reserves					
Share capital	12		5,591		5,469
Share premium account	13		174,208		163,191
Capital redemption reserve	13		21,521		21,521
Capital reserve	13		286,983		249,351
Revenue reserve	13		(4,587)		(5,377)
Shareholders' funds			483,716		434,155
Net asset value per ordinary share	14		173.0p		158.8p

The Financial Statements of Baillie Gifford Shin Nippon PLC (Company Registration Number SC093345) on pages 43 to 56 were approved and authorised for issue by the Board and were signed on its behalf on 16 March 2020.

M Neil Donaldson
Chairman

The accompanying notes on pages 47 to 56 are an integral part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 January 2020

	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 2019		5,469	163,191	21,521	249,351	(5,377)	434,155
Ordinary shares issued	13	122	11,017	–	–	–	11,139
Net return on ordinary activities after taxation	13	–	–	–	37,632	790	38,422
Shareholders' funds at 31 January 2020		5,591	174,208	21,521	286,983	(4,587)	483,716

For the year ended 31 January 2019

		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 2018		4,749	95,174	21,521	285,451	(5,483)	401,412
Ordinary shares issued		720	68,017	–	–	–	68,737
Net return on ordinary activities after taxation		–	–	–	(36,100)	106	(35,994)
Shareholders' funds at 31 January 2019		5,469	163,191	21,521	249,351	(5,377)	434,155

The accompanying notes on pages 47 to 56 are an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 January

	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Cash flows from operating activities				
Net return on ordinary activities before taxation	39,023		(35,485)	
Net (gains)/losses on investments	(37,952)		32,225	
Currency losses	320		3,875	
Finance costs of borrowings	1,032		1,005	
Overseas withholding tax	(601)		(453)	
Increase/(decrease) in debtors, accrued income and prepaid expenses	17		(631)	
Increase in creditors and prepaid income	55		52	
Cash inflow from operations		1,894		588
Interest paid		(999)		(963)
Net cash inflow/(outflow) from operating activities		895		(375)
Cash flows from investing activities				
Acquisitions of investments	(100,686)		(155,313)	
Disposals of investments	88,851		85,032	
Net cash outflow from investing activities		(11,835)		(70,281)
Shares issued	11,139		70,576	
Net cash inflow from financing activities		11,139		70,576
Increase/(decrease) in cash and cash equivalents		199		(80)
Exchange movements		(213)		162
Cash and cash equivalents at 1 February		5,750		5,668
Cash and cash equivalents at 31 January*		5,736		5,750

* Cash and cash equivalents represent cash at bank and deposits repayable on demand.

The accompanying notes on pages 47 to 56 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 2020 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. Although net current liabilities are reported on the Balance Sheet, the Company's assets, which are primarily investments in quoted securities and are readily realisable (Level 1), exceed its liabilities significantly and could be sold to repay borrowings if required. 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 page 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.

The Financial Statements have been prepared in accordance with the Companies Act 2006, applicable United Kingdom 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 October 2019 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 preparation of the Financial Statements requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the reporting date. However, uncertainty about those estimates and judgements could result in an actual outcome which may differ from these estimates.

The Directors believe that there is one key judgement, being the functional currency of the Company. Although the Company invests in investments denominated in yen, it has been determined that the functional currency is sterling as the entity is listed on a sterling stock exchange in the UK, and its investment manager is also UK based. In addition, the Company's share capital and expenses are denominated in sterling.

2 Income

	2020 £'000	2019 £'000
Income from investments		
Listed overseas dividends	6,006	5,092
Total income	6,006	5,092
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	6,006	5,092
Total income	6,006	5,092

3 Investment Management Fee – all charged to revenue

	2020 £'000	2019 £'000
Investment management fee	3,023	2,871

Details of the Investment Management Agreement are set out on page 27. On 1 January 2019 the annual management fee was reduced to 0.75% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remainder. Prior to 1 January 2019 the annual management fee was 0.95% on the first £50m of net assets, 0.65% on the next £200m and 0.55% on the remainder.

4 Other Administrative Expenses

	2020 £'000	2019 £'000
General administrative expenses	399	441
Directors' fees (see Directors' Remuneration Report on page 35)	141	140
Auditor's remuneration (statutory audit of the Company's Financial Statements)	20	20
	560	601

5 Finance Costs of Borrowings

	2020 £'000	2019 £'000
Interest on bank loans	1,032	1,005

The bank loan interest disclosed includes £18,000 paid (2019 – £13,000) in respect of yen deposits held at the custodian bank.

6 Tax on Ordinary Activities

	2020 £'000	2019 £'000
Analysis of charge in year		
Overseas taxation (charged to revenue)	601	509
Factors affecting tax charge for year		
The tax assessed for the year is lower (2019 – lower) than the standard rate of corporation tax in the UK of 19% (2019 – 19%)		
The differences are explained below:		
Net return/(loss) on ordinary activities before taxation	39,023	(35,485)
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2019 – 19%)	7,414	(6,742)
Effects of:		
Capital (returns)/loss not taxable	(7,150)	6,859
Income not taxable	(1,143)	(860)
Overseas withholding tax	601	509
Taxable losses in year not utilised	879	743
Total tax charge for the year	601	509

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

Factors that may affect future tax charges

At 31 January 2020 the Company had a potential deferred tax asset of £4,805,000 (2019 – £4,056,000) on tax 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 generate taxable 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% (2019 – 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

	2020 Revenue	2020 Capital	2020 Total	2019 Revenue	2019 Capital	2019 Total
Net return/(loss) on ordinary activities after taxation	0.28p	13.57p	13.85p	0.04p	(13.98p)	(13.94p)

Revenue return per ordinary share is based on the net revenue gain on ordinary activities after taxation of £790,000 (2019 – gain of £106,000) and on 277,319,745 ordinary shares (2019 – 258,154,060) 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 £37,632,000 (2019 – net capital loss of £36,100,000) and on 277,319,745 ordinary shares (2019 – 258,154,060) 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 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	527,373	–	–	527,373
Unlisted securities	–	–	3,260	3,260
Total financial asset investments	527,373	–	3,260	530,633
As at 31 January 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	471,753	4,868	–	476,621
Unlisted securities	–	–	3,253	3,253
Total financial asset investments	471,753	4,868	3,253	479,874

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 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 47.

During the year investments with a book cost of nil (2019 – £3,142,723) were transferred from Level 1 to Level 2. Investments with a book cost of £3,142,723, were transferred from Level 2 to Level 1 (2019 – nil). Unlisted securities are categorised as Level 3. None of the financial liabilities are designated at fair value through profit or loss in the Financial Statements.

	Listed securities* £'000	Unlisted securities† £'000	Total £'000
Cost of investments held at 1 February 2019	328,176	1,652	329,828
Investment holding gains at 1 February 2019	148,445	1,601	150,046
Value of investments held at 1 February 2019	476,621	3,253	479,874
Analysis of transactions during the year:			
Purchases at cost	102,109	–	102,109
Sales proceeds received	(89,302)	–	(89,302)
Gains on investments	37,945	7	37,952
Fair value of investments held at 31 January 2020	527,373	3,260	530,633
Cost of investments held at 31 January 2020	378,109	1,652	379,761
Investment holding gains at 31 January 2020	149,264	1,608	150,872
Fair value of investments held at 31 January 2020	527,373	3,260	530,633

* Includes Level 2 equity investments amounting to nil (2019 – £4,868,000).

† The unlisted security investment represents a holding of preference shares in Moneytree K.K. This holding is not classified as equity as it includes liquidation preference rights that determine the repayment (or multiple thereof) of the original investment in the event of a liquidation event such as a takeover.

The company received £89,302,000 (2019 – £86,169,000) from investments sold in the year. The book cost of these investments when they were purchased was £52,176,000 (2019 – £46,168,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

The purchases and sales proceeds figures above include transaction costs of £46,000 (2019 – £83,000) and £42,000 (2019 – £47,000) respectively.

Of the gains on sales during the year of £37,126,000 (2019 – gains of £40,001,000), a net gain of £32,925,000 (2019 – net gain of £34,541,000) was included in the investment holding gains at the previous year end.

	2020 £'000	2019 £'000
Net gains on investments		
Gains on sales	37,126	40,001
Changes in investment holding gains	826	(72,226)
	37,952	(32,225)

The gains on sales of £37,952,000 and decrease in investment holding gains of £826,000 include amounts relating to: i) changes in local currency fair value of the investments and, ii) movements in the yen/sterling exchange rate.

9 Debtors

	2020 £'000	2019 £'000
Accrued income	1,456	1,463
Sales for subsequent settlement	1,588	1,137
Other debtors and prepayments	97	106
	3,141	2,706

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

10 Creditors – amounts falling due within one year

	2020 £'000	2019 £'000
Purchases for subsequent settlement	2,736	1,313
Bank loans	37,403	–
Other creditors and accruals	973	916
	41,112	2,229

Included in creditors is £740,000 (2019 – £689,000) 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

	2020 £'000	2019 £'000
Bank loans	14,682	51,946

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 £32,000 (2019 – £32,000).

Borrowing facilities

At 31 January 2020

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 2019

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.

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, maturity profiles and fair value of the bank loans are shown in note 18.

12 Share Capital

	2020 Number	2020 £'000	2019 Number	2019 £'000
Allotted and fully paid ordinary shares of 2p each	279,577,485	5,591	273,452,485	5,469

At 31 January 2020 the Company had authority to buy back 41,234,115 shares. No shares were bought back during the year (2019 – nil). Share buy-backs are funded from the capital reserve.

During the year the Company issued 6,125,000 shares on a non-pre-emptive basis at a premium to net asset value for net proceeds of £11,139,000 (2019 – 36,025,000 shares for net proceeds of £68,737,000). Between 1 February and 13 March 2020 the Company issued no further shares.

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 2019	5,469	163,191	21,521	249,351	(5,377)	434,155
Ordinary share issuance proceeds	122	11,030	–	–	–	11,152
Share issuance expenses	–	(13)	–	–	–	(13)
Net gain on disposal of investments	–	–	–	37,126	–	37,126
Changes in investment holding gains	–	–	–	826	–	826
Exchange differences on bank loans	–	–	–	(107)	–	(107)
Exchange differences on settlement of investment transactions	–	–	–	11	–	11
Other exchange differences	–	–	–	(224)	–	(224)
Net revenue return for the year	–	–	–	–	790	790
At 31 January 2020	5,591	174,208	21,521	286,983	(4,587)	483,716

The capital reserve includes investment holding gains of £150,872,000 (2019 – gains of £150,046,000) 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:

	2020	2019
Net asset value/shareholders' funds†	£483,716,000	£434,155,000
Number of ordinary shares in issue at year end	279,577,485	273,452,485
Shareholders' funds per ordinary share/net asset value per ordinary share (after deducting borrowings at book value)†	173.0p	158.8p
Net asset value per ordinary share (after deducting borrowings at fair value)†	172.8p	158.5p

† See Glossary of Terms and Alternative Performance Measures on pages 63 and 64.

The value of the borrowings on the bases set out above are disclosed in note 18 on pages 53 to 56.

Deducting borrowings at fair value would have the effect of reducing the net asset value per ordinary share from 173.0p to 172.8p. Taking the market price of the ordinary shares at 31 January 2020 of 170.4p, this would have given a discount to net asset value of 1.4% as against 1.5% on the basis of deducting borrowings at book. At 31 January 2019 the net asset value after deducting borrowings at fair value was 158.5p. Taking the market value of the ordinary shares at 31 January 2019 of 171.2p, this would have given a premium to net asset value of 8.0%. The basis of deducting borrowings at book would have given a premium to net asset value of 7.8%.

15 Contingent Liabilities, Guarantees and Financial Commitments

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

16 Analysis of Change in Net Debt

	31 January 2019 £'000	Cash Flows £'000	Exchange Movement £'000	Other non-cash changes £'000	31 January 2020 £'000
Cash and cash equivalents	5,750	199	(213)	–	5,736
Loans due within one year	–	–	–	(37,403)	(37,403)
Loans due in more than one year	(51,946)	–	(107)	37,371	(14,682)
Total	(46,196)	199	(320)	(32)	(46,349)

17 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 35. 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. Details of Directors' holdings at 31 January 2020 are detailed in the Directors' Remuneration Report on pages 35 and 36.

The management fee due to Baillie Gifford and Co Limited is set out in note 3 on page 48 and the amount accrued at 31 January 2020 is set out in note 10 on page 51. Details of the Investment Management Agreement are set out on page 27.

18 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.

18 Financial Instruments and Risk Management (continued)

Currency Risk (continued)

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

	Investments £'000	Cash and deposits £'000	Bank loans £'000	Other debtors and creditors £'000	Net exposure £'000
At 31 January 2020					
Yen	530,633	5,679	(52,085)	154	484,381
Total exposure to currency risk	530,633	5,679	(52,085)	154	484,381
Sterling	–	57	–	(722)	(665)
	530,633	5,736	(52,085)	(568)	483,716
	Investments £'000	Cash and deposits £'000	Bank loans £'000	Other debtors and creditors £'000	Net exposure £'000
At 31 January 2019					
Yen	479,874	5,102	(51,946)	1,134	434,164
Total exposure to currency risk	479,874	5,102	(51,946)	1,134	434,164
Sterling	–	648	–	(657)	(9)
	479,874	5,750	(51,946)	477	434,155

Currency Risk Sensitivity

At 31 January 2020, 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 £48,438,000 (2019 – £43,416,000). 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 2020 is shown below. There was no significant change to the interest rate risk profile during the year.

Financial Assets

	2020 Fair value £'000	2020 Weighted average interest rate	2019 Fair value £'000	2019 Weighted average interest rate
Cash:				
Yen	5,679	(0.35%)	5,102	Nil
Sterling	57	Nil	648	0.02%
	5,736		5,750	

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.

18 Financial Instruments and Risk Management (continued)

Financial Liabilities

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

	2020 Book value £'000	2020 Weighted average interest rate	2020 Weighted average period until maturity	2019 Book value £'000	2019 Weighted average interest rate	2019 Weighted average period until maturity
Bank loans:						
Yen denominated – fixed rate	52,085	1.8%	24 months	51,946	1.8%	36 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 21 to 22. In addition, various analyses of the portfolio by industrial sector, exchange listing, holding period and investment theme are shown on pages 20 and 23.

109.0% of the Company's net assets are invested in Japanese quoted equities (2019 – 109.8%). A 10% increase in quoted equity valuations at 31 January 2020 would have increased total net assets and net return on ordinary activities after taxation by £52,737,000 (2019 – £47,662,000). A decrease of 10% would have had an equal but opposite effect. This analysis does not include the effect on the management fee of changes in quoted equity valuations.

Liquidity Risk

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

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

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:

	2020 £'000	2019 £'000
In less than one year:		
– repayment of loan	37,446	–
– accumulated interest	840	962
In more than one year but not more than five years:		
– repayment of loan	14,698	37,371
– accumulated interest	979	1,593
In more than five years:		
– repayment of loan	–	14,669
– accumulated interest	–	222
	53,963	54,817

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

18 Financial Instruments and Risk Management (continued)

Credit Risk

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

- The Depositary is liable for the loss of financial instruments held in custody. The Depositary will ensure that any delegate segregates the assets of the Company. The 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 2020 and 2019, 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:

	2020 £'000	2019 £'000
Cash and deposits	5,736	5,750
Debtors	3,056	2,622
	8,792	8,372

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

Fair Value of Financial Assets and Financial Liabilities

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

	2020 Book value £'000	2020 Fair * value £'000	2019 Book value £'000	2019 Fair * value £'000
Fixed rate yen bank loans	52,085	52,626	51,946	52,810

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

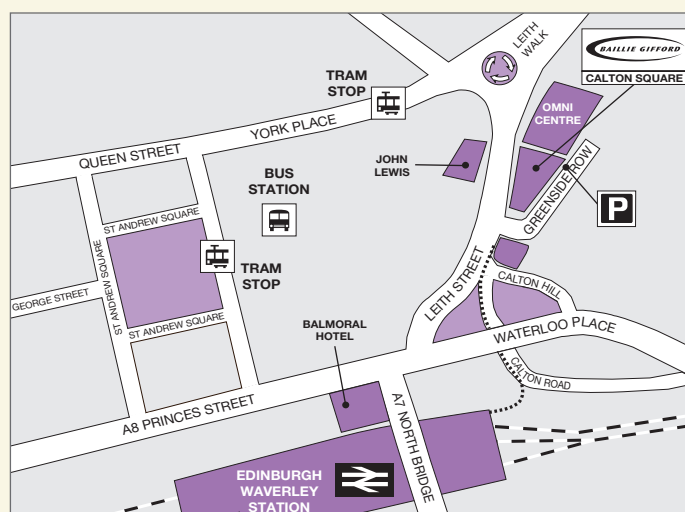
Capital Management

The capital of the Company is its share capital and reserves as set out in note 13 together with its borrowings (see notes 10 and 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 page 8 and pages 31 and 32, respectively. The Company has the ability to buy back and issue shares (see pages 28 and 29) 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 notes 10 and 11.

19 Post Balance Sheet Event

Subsequent to the 31 January year end, the net asset value per share fell by 29.7% (as at 13 March 2020) as the market reacted to the escalating coronavirus outbreak.

Notice of Annual General Meeting



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

Covid-19 coronavirus – Important note regarding arrangements for the Annual General Meeting (AGM)

The Board of Baillie Gifford Shin Nippon PLC (Shin Nippon) recognises the public health risk associated with the Covid-19 outbreak arising from public gatherings and notes the Government's measures restricting such gatherings, travel and attendance at workplaces.

At the same time, the Board is conscious of the legal requirement for Shin Nippon to hold its AGM before the end of July. Given the current uncertainty around when public health concerns will have abated, the Board has for the time being decided to aim to follow the Company's customary corporate timetable and, accordingly, the Company's AGM is being convened to take place as scheduled at 10.00am on Thursday 14 May 2020 at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN. The Board will, however, continue to monitor developments and, depending on the circumstances in early May, may postpone the AGM in accordance with the Company's Articles of Association to a time when the Board considers that it will be safe to be held.

In the meantime, the Board encourages all shareholders to submit proxy voting forms as soon as possible and, in any event, by no later than 10:00am on 12 May.

We would encourage shareholders to monitor the Company's website at www.shinnippon.co.uk.

Should shareholders have questions for the Board or the Managers or any queries as to how to vote, they are welcome as always to submit them by email to trustenquiries@bailliegifford.com or call 0800 917 2112.

Baillie Gifford may record your call.

Notice is hereby given that the thirty fifth 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 Thursday, 14 May 2020 at 10.00am for the purpose of considering and, if thought fit, passing the following resolutions, which all comprise ordinary business and of which Resolutions 1 to 11 will be proposed as ordinary resolutions and Resolutions 12 and 13 will be proposed as special resolutions:

1. To receive and adopt the Financial Statements of the Company for the year ended 31 January 2020 with the Reports of the Directors and of the Independent Auditor thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Report on Remuneration for the year ended 31 January 2020.
4. To re-elect Mr MN Donaldson as a Director of the Company.
5. To re-elect Mr J Skinner as a Director of the Company.
6. To re-elect Mrs MR Somerset Webb as a Director of the Company.
7. To re-elect Professor S Vijayakumar as a Director of the Company.
8. To elect Mr KJ Troup as a Director of the Company.
9. 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.
10. To authorise the Directors to determine the remuneration of the Independent Auditor of the Company.
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 £1,863,849.90 (representing 33.33% of the Company's total issued share capital as at 11 March 2020), 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.

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 £559,154.96 being approximately 10% of the nominal value of the issued share capital of the Company as at 12 March 2020.
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 41,908,665, being approximately 14.99% of the issued ordinary share capital of the Company as at the date of the passing of this Resolution;
 - (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 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 five business days immediately preceding the date of purchase; and
 - (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and
 - (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting, 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.

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 or telephone number 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.

By order of the Board
Baillie Gifford & Co Limited
Managers and Secretaries
8 April 2020

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. 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.
9. 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.
10. 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.
11. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the Auditor) setting out any matter relating to the audit of the Company's Financial Statements, including the Auditor's report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
12. 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.
13. Members have the right to ask questions at the meeting in accordance with section 319A of the Companies Act 2006.
14. As at 12 March 2020 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 279,577,485 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 12 March 2020 were 279,577,485 votes.
15. 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/her proxy will need to ensure that both he/she and his/her proxy complies with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.
16. 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 or by asking a professional adviser to do so. 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 GB00BFXH242

Sedol BFXH24

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 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	9.45p	8.9p
Cost of fraction for warrant	0.55p	2.7p
	<hr/> 10.00p	

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	32.96p	35.6p
Cost of fraction for warrant	15.37p	16.6p

* Adjusted for the five for one share split on 21 May 2018.

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 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

	2020 Number of shares held	2020 %	2019 Number of shares held	2019 %
Institutions	28,226,591	10.1	22,778,870	8.3
Intermediaries	242,826,381	86.9	224,981,435	82.3
Individuals†	7,296,661	2.6	7,216,284	2.6
Baillie Gifford				
Share Plans/ISA	–	–	17,919,870	6.6
Marketmakers	1,227,852	0.4	556,026	0.2
	279,577,485	100.0	273,452,485	100.0

†Includes all holdings under 5,000 shares.

Data Protection

The Company is committed to ensuring the confidentiality and security of any personal data provided to it. Further details on how personal data is held and processed on behalf of the Company can be found in the privacy policy available on the Company's website www.shinnippon.co.uk.

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

Information on how to invest in Baillie Gifford Shin Nippon can be found at www.shinnippon.co.uk.

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.

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.

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 2019) are available at www.bailliegifford.com.

The Company's maximum and actual leverage levels (see Glossary of Terms and Alternative Performance Measures on pages 63 and 64) at 31 January 2020 were as follows:

Leverage

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

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.

No Provider has any obligation to update, modify or amend the data or to otherwise notify a recipient thereof in the event that any matter stated herein changes or subsequently becomes inaccurate.

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, judgements, 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

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Glossary of Terms and Alternative Performance Measures (APM)

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

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 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 notes 10 and 11 on page 51.

Net Asset Value (Borrowings at Fair Value) (APM)

This is a widely reported measure across the investment trust industry. 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 18 on page 56. A reconciliation from Net Asset Value (with borrowings at book value) to Net Asset Value per ordinary share (with borrowings at fair value) is provided below.

	31 January 2020	31 January 2019
Net Asset Value per ordinary share (borrowings at book value)	173.0p	158.8p
Shareholders' funds (borrowings at book value)	£483,716,000	£434,155,000
Add: book value of borrowings	£52,085,000	£51,946,000
Less: fair value of borrowings	(£52,626,000)	(£52,810,000)
Shareholders' funds (borrowings at fair value)	£483,175,000	£433,291,000
Shares in issue at year end	279,577,485	273,452,485
Net Asset Value per ordinary share (borrowings at fair value)	172.8p	158.5p

Premium/Discount (APM)

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.

	2020 NAV (book)	2020 NAV (fair)	2019 NAV (book)	2019 NAV (fair)
Closing NAV per share	173.0p	172.8p	158.8p	158.5p
Closing share price	170.4p	170.4p	171.2p	171.2p
(Discount)/premium	(1.5%)	(1.4%)	7.9%	8.0%

Ongoing Charges (APM)

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.

A reconciliation from the expenses detailed in the Income Statement on page 43.

	31 January 2020	31 January 2019
Investment management fee	£3,023,000	£2,871,000
Other administrative expenses	£560,000	£601,000
Total expenses (a)	£3,583,000	£3,471,000
Average daily cum-income net asset value (with debt at fair value) (b)	£490,280,000	£458,032,000
Ongoing charges (a) ÷ (b) (expressed as a percentage)	0.73%	0.77%

Total Return (APM)

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.

Gearing (APM)

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 borrowings at book 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.

Equity gearing is the Company's borrowings adjusted for cash, bonds and property expressed as a percentage of shareholders' funds.

	2020 Gearing † £'000	2020 Potential Gearing # £'000	2019 Gearing † £'000	2019 Potential Gearing # £'000
Borrowings (a)	52,085	52,085	51,946	51,946
Cash and cash equivalents (b)	4,588	–	4,814	–
Shareholders funds (c)	483,716	483,716	434,155	434,155
	9.8	10.8	10.9	12.0

† Gearing: $((a) - (b)) \div (c)$, expressed as a percentage.

Potential gearing: $(a) \div (c)$, expressed as a percentage.

Leverage (APM)

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

Active Share (APM)

Active share, a measure of how actively a portfolio is managed, is the percentage of the listed equity 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.

Net Liquid Assets

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

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.

Communicating with Shareholders



Trust Magazine

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.

An online version of *Trust* can be found at www.bailliegifford.com/trust.

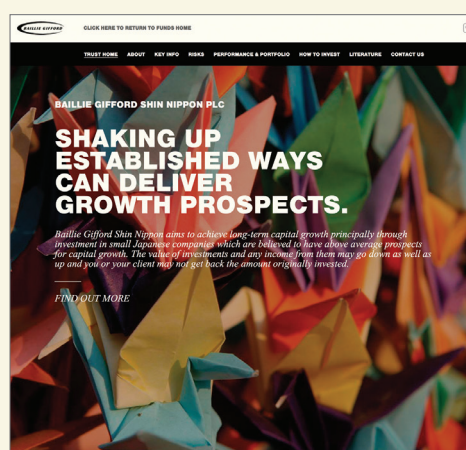
Baillie Gifford Shin Nippon on the Web

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 about Baillie Gifford Shin Nippon.



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

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.

Email: trustenquiries@bailliegifford.com

Website: www.bailliegifford.com

Fax: 0131 275 3955

Baillie Gifford Client Relations Team
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

J Skinner
MR Somerset Webb
SCN Somerville
S Vijayakumar
KJ Troup

Alternative Investment Fund Managers, Secretaries and Registered Office

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

Registrar

Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Tel: 0370 889 3223

Company Brokers

Winterflood Securities Ltd
The Atrium Building
Cannon Bridge House
25 Dowgate Hill
London
EC4R 2GA

Independent Auditor

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Depositary

The Bank of New York Mellon
(International) Limited
1 Canada Square
London
E14 5AL

Company Details

www.shinnippon.co.uk
Company Registration
No. SC093345
ISIN GB00BFXYPH242
Sedol BFXYPH24
Ticker BGS

Legal Entity Identifier:
X5XCIPCJQCSUF8H1FU83

Further Information

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