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Baillie Gifford Shin Nippon PLC

Annual Report and Financial Statements
31 January 2012

Investing in New Opportunities in Japan

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Company Summary

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

Policy and Objective

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. Full details of the Company's investment policy are contained within the Business Review on page 18.

Comparative Index

The index against which performance is compared is the MSCI Japan Small Cap Index (total return and in sterling terms).

Management Details

Baillie Gifford & Co are appointed as investment managers and secretaries to the Company. The management contract is reviewed annually and can be terminated on 6 months' notice.

Management Fee

Baillie Gifford & Co's annual remuneration is 1.0% of the net assets of the Company attributable to its shareholders, calculated and payable on a quarterly basis.

Savings Vehicles

Baillie Gifford Shin Nippon shares can be held through a variety of saving vehicles (see page 47 for details).

AIC

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

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 Services Authority.

Shin Nippon means 'New Japan'

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

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

Year's Summary

	31 January 2012	31 January 2011	% change
Total assets (before deduction of bank loans)	£64.4m	£64.4m	
Bank loans	£9.6m	£8.7m	
Shareholders' funds	£54.8m	£55.7m	
Net asset value per ordinary share (after deducting borrowings at fair value)	176.0p	179.0p	(1.7)
Net asset value per ordinary share (after deducting borrowings at par value)	176.2p	179.0p	(1.6)
Share price†	167.3p	163.3p	2.4
MSCI Japan Small Cap Index*			0.5
Yen/sterling exchange rate	120.33	131.23	9.1
Discount (after deducting borrowings at fair value)	4.9%	8.8%	
Discount (after deducting borrowings at par value)	5.1%	8.8%	
Revenue earnings per ordinary share	0.32p	0.37p	
Total expense ratio	1.49%	1.50%	

Year to 31 January	2012	2012	2011	2011
Year's high and low	High	Low	High	Low
Net asset value per ordinary share (after deducting borrowings at fair value)	192.7p	140.1p	182.8p	139.4p
Net asset value per ordinary share (after deducting borrowings at par value)	192.7p	140.1p	182.8p	139.9p
Share price	180.9p	133.0p	176.5p	115.3p
Premium/(discount) (after deducting borrowings at fair value)	1.2%	(13.0%)	(0.1%)	(19.0%)
Premium/(discount) (after deducting borrowings at par value)	1.2%	(13.0%)	(0.1%)	(19.0%)

	31 January 2012	31 January 2011
Net return per ordinary share		
Revenue	0.32p	0.37p
Capital	(3.08p)	38.53p
Total	**(2.76p)**	**38.90p**

† At mid market price.

Three Year Performance

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

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

Past performance is not a guide to future performance.

Performance Summary

The following charts indicate how an investment in Shin Nippon has performed relative to its comparative index, peer group and its underlying net asset value over one and five year periods to 31 January 2012.

One Year Performance
(figures rebased to 100 at 31 January 2011)

Annual change in Net Asset Value and Share Price

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

* The comparative index is the MSCI Japan Small Cap Index (total return and in sterling terms). Prior to 1 February 2010 the comparative index comprised a composite of the Tokyo Second Section Index, the TOPIX Small Index and the JASDAQ Index, weighted by market capitalisation, in sterling terms.

Past performance is not a guide to future performance.

Five Year Performance
(figures rebased to 100 at 31 January 2007)

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

Five Year Peer Group Performance
(figures rebased to 100 at 31 January 2007)

(Discount)/premium to Net Asset Value
(plotted on a monthly basis)

Past performance is not a guide to future performance.

Capital

At 31 January	Total assets * £'000	Bank loans £'000	Shareholders' funds £'000	Net asset value per share † p	Share price p	(Discount)/ premium # %
2002	48,226	10,050	38,176	123.5	100.5	(18.6)
2003	35,387	7,101	28,286	91.5	79.5	(13.1)
2004	51,371	7,266	44,105	144.1	126.8	(12.0)
2005	68,586	14,350	54,236	177.2	165.8	(6.4)
2006	101,015	13,938	87,077	284.6	304.0	6.8
2007	77,432	12,248	65,184	213.0	205.0	(3.8)
2008	56,518	11,354	45,164	145.2	129.3	(11.0)
2009	49,073	10,813	38,260	123.0	95.8	(22.1)
2010	51,486	7,917	43,569	140.1	115.3	(17.7)
2011	64,429	8,763	55,666	179.0	163.3	(8.8)
2012	**64,362**	**9,557**	**54,805**	**176.2**	**167.3**	**(5.1)**

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

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

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

Revenue

Year to 31 January	Gross revenue £'000	Available for ordinary shareholders £'000	Revenue earnings per ordinary share p	Total expense ratio ‡ %
2002	451	(455)	(1.46)	1.45
2003	398	(407)	(1.32)	1.55
2004	524	(238)	(0.78)	1.52
2005	598	(392)	(1.28)	1.48
2006	780	(365)	(1.20)	1.25
2007	929	(258)	(0.84)	1.19
2008	1,119	4	0.01	1.44
2009	1,358	481	1.54	1.47
2010	868	24	0.08	1.55
2011	1,108	114	0.37	1.50
2012	**1,219**	**98**	**0.32**	**1.49**

Gearing Ratios

Actual gearing ¶	Potential gearing §
115	126
115	125
112	116
109	126
109	116
118	119
117	125
118	128
117	118
113	116
114	**117**

‡ Ratio of total operating costs to average shareholders' funds. The 2009 figure excludes the impact of the VAT on management fees reclaimed during the year.

¶ Total assets (including all debt used for investment purposes) less all cash and fixed interest securities held as a substitute for cash divided by shareholders' funds.

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

Cumulative Performance (taking 2002 as 100)

Year to 31 January	Net asset value per share ^	Share price	Comparative index **
2002	100	100	100
2003	74	79	86
2004	117	126	132
2005	144	165	167
2006	230	302	242
2007	172	204	177
2008	118	129	144
2009	100	95	165
2010	113	115	163
2011	145	162	194
2012	**143**	**166**	**195**
Compound annual returns			
5 year	(3.7%)	(4.0%)	2.0%
10 year	3.6%	5.2%	6.9%

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

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

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

Past performance is not a guide to future performance.

Chairman's Statement

Performance

The Board reviews the Managers' performance over the previous 1, 3 and 5 years, with most emphasis placed on the 3 year figures. In the three years to 31 January 2012 the Company's comparative index[1] rose 17.9% in sterling terms. Shin Nippon's net asset value per share[2] rose by 43.9% during the period, while the share price rose by 74.7%. Borrowings were beneficial as was the strengthening of the yen against sterling, but the bulk of our outperformance resulted from good stock selection. The discount of the share price to net asset value narrowed from 21.7% to 4.9%. The Company's performance against its peer group was again encouraging with a net asset value total return ranking of 2/5 over 1 and 3 years and 1/5 over 5 years[3].

Over the twelve months to 31 January 2012 the comparative index[1] rose by 0.5% in sterling terms. Shin Nippon's net asset value per share[2] fell by 1.7% during the period and the share price rose by 2.4%. The discount of the share price to net asset value narrowed from 8.8% to 4.9%, having ranged between a discount of 13.0% and a premium of 1.2% in the year.

Borrowing

The Company's debt of ¥1.15bn was due for repayment in 2011 and was renegotiated and rolled over at maturity. It now bears an interest rate of 2.24% and is due for repayment in 2014. Our resultant gearing at the end of our year was 17.4% gross and 14.3% net of cash balances.

Hedging

The Company undertook no hedging in the year during which the yen strengthened 9.1% against sterling. The Board continues to monitor currency exposure actively and will consider hedging if it is felt that the yen has diverged significantly from fair value.

Revenue

The Company's revenue earnings per share declined from 0.37p in the previous year to 0.32p. Dividend income increased by 10%, but this was more than offset by management charges and other expenses, as well as higher financing costs. The Board continues to manage expenses carefully and monitors the total expense ratio very closely.

AGM

At this year's AGM the Board is seeking to renew the facility to issue new shares (and to re-issue any shares held in treasury, of which there are none at present), of up to 5% of the Company's issued share capital for cash, on a non pre-emptive basis, but only at a premium to net asset value. No shares were issued during the financial year. Such authority would be used to feed natural market demand and would enhance the net asset value per share for existing shareholders.

Approval is also sought to renew the authority to buy back shares. The purpose of this facility is to enable the Board to buy back shares when the discount is substantial in absolute terms and in relation to its peers should that be deemed to be desirable. Any such purchase would improve the net asset value per share for remaining shareholders.

Board

We were very sorry that Angus Tulloch stepped down from the Board during the year and thank him for his robust and realistic contribution to the debates on our policies. We are delighted to welcome Merryn Somerset Webb in his place. Merryn has a strong knowledge of, and interest in Japan and has worked there as a stockbroker.

[1] MSCI Japan Small Cap Index (total return) from 1 February 2010, and prior to that a composite index.

[2] After deducting borrowings at fair value.

[3] Source: Morningstar.

Past performance is not a guide to future performance.

Outlook

2011 was unfortunately very eventful in Japan. In the spring it suffered its worst earthquake on record. The resulting tsunami was catastrophic, causing incredible damage even 6 miles inland and wiping out much of the area's infrastructure and economy. Considerable damage was done to the Fukushima nuclear plant. There were some criticisms of the Government in its handling of the ensuing crisis but much liquidity was pumped into the economy and many industries developed innovative responses to the challenges created.

Later on in the year, the widespread flooding in Thailand also caused considerable supply chain problems for several Japanese industries resulting in a fall in GNP in the final quarter of the year.

Politics continued to disappoint as Japan announced its 6th prime minister in 5 years. In this area there always seem to be rays of hope, but the gestation period for good policies is incredibly long. In this case there are indications that Japan is moving gradually towards higher rates of consumption tax (VAT), and we would see this as a positive development. Interestingly, and purely as an aside, a VAT rate comparable to the West could reduce significantly the Japanese government deficit.

As with politics, we have always had concerns about the quality of corporate governance in Japan's companies, albeit that this has certainly improved dramatically over the years. However, although not held by Shin Nippon, we were taken by surprise by the revelations that have come out of the Olympus scandal. Here it is alleged that very large trading losses have been routinely swept under the carpet, and when the new CEO, Michael Woodford, uncovered this scandal he was promptly sacked for his efforts. It is to be hoped that this scandal will accelerate the movement to much better governance standards.

With this background one may be forgiven for thinking that we may have lost our confidence in the future of the small company sector in Japan. Rather the opposite is the case. Indeed, it was notable that many of the portfolio's holdings continued to record excellent rates of growth last year despite all the problems I have listed. As I said in last year's statement we are rather encouraged by the interesting companies with good growth prospects that our Managers are increasingly identifying. Valuations are reasonable and there are many companies with strong competitive advantage and industry leadership both at home and overseas. Your Board and Managers remain optimistic for the sector and portfolio, and continue to maintain a reasonable level of gearing.

Barry M Rose
21 March 2012



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. Baillie Gifford & Co, a leading UK investment management firm, who act as Managers and Secretaries to the Company, have been involved in investment management since 1908.

Directors

Barry M Rose

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

P Francis Charig

Francis Charig was appointed a Director in 2005. He has considerable knowledge of the technology and financial sectors in Japan and is the founder and chief executive of Antix Labs Limited. He was named a World Economic Forum Technology Pioneer in 2006. Francis is the former head of the Trading Systems Business Unit at the London Stock Exchange and was the chairman of the Open Contents Platform Association based in Tokyo.

Iain A McLaren CA

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

Merryn R Somerset Webb

Merryn R Somerset Webb was appointed a Director on 4 October 2011. She is the editor-in-chief of UK personal finance magazine MoneyWeek, writes for the Financial Times and is a radio and television commentator on financial matters. She has a strong interest in and knowledge of Japan, is a director of Montanaro European Smaller Companies Trust plc and a trustee of the Daiwa Anglo Japanese Foundation.

Simon CN Somerville

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

All Directors are members of the Nomination and Audit Committees.

Managers and Secretaries

Shin Nippon is managed by Baillie Gifford & Co, 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 & Co is one of the largest investment trust managers in the UK and currently manages eight investment trusts. Baillie Gifford & Co 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 & Co total around £79 billion at 19 March 2012. Based in Edinburgh, it is one of the leading privately owned investment management firms in the UK, with 36 partners and a staff of around 700.

The manager of Shin Nippon is John MacDougall. He joined Baillie Gifford & Co in 2000 and has been a member of the Japanese equity department since 2001. There are currently 7 people in Baillie Gifford's Japan team.

The firm of Baillie Gifford & Co is authorised and regulated by the Financial Services Authority.

Managers' Report

Recent coverage of the Japanese economy has been downbeat. Growth expectations have been pared in the wake of last year's earthquake and tsunami while the strong yen has clearly created challenges for exporters. However there are still areas that are experiencing very impressive rates of expansion. Spending on e-commerce, smartphones, energy efficient products and healthcare has risen sharply over the past five years for example. This has benefited the leading companies in developing industries such as internet shopping, online payment systems, mobile gaming, data storage, recycling, retail pharmacy, medical testing and nursing facilities for the elderly.

It is these emerging growth areas within Japan's "new economy" that Shin Nippon, which translates as "New Japan", tends to focus on. Many of the holdings in these dynamic sectors are run by younger, more entrepreneurial managements than average and in our opinion will be able to generate strong earnings growth irrespective of whether the broader economy is expanding.

Performance

The MSCI Japan Small Cap index (total return in sterling terms) rose 0.5% over the year while Shin Nippon's net asset value per share (after deducting borrowings at fair value) fell by 1.7%. Sterling returns benefited from the strengthening of the yen. The broad Japanese market underperformed world markets as a whole over the year and fared particularly badly in the period immediately after the earthquake and tsunami. However despite the inevitable short term disruption to the domestic economy, smaller companies, which as a whole tend to be more focused on the Japan market, in aggregate held up better over the year than did their large cap peers. It appears that investors were more concerned about the impact of a faltering global recovery on the larger Japanese exporters than about domestic demand.

Many of the top performing companies within the portfolio over the year were innovative internet companies working to create new markets or companies that use the internet as a business tool in order to disrupt an existing inefficient marketplace. Most of these companies have been held by Shin Nippon for several years so it is pleasing to see their multi-year growth opportunities continuing to develop and expand.

Past performance is not a guide to future performance.

Zozotown, **Start Today's** market leading online apparel website, continued to gain new customers and attract new fashion brands. The value of items sold currently on Start Today's multi-brand website is still significantly less than the total revenues at some of Japan's leading single brand traditional bricks and mortar apparel retailers; this suggests Zozotown has significant scope to continue capturing market share. Similarly, **M3 Inc's** low cost, internet based, direct marketing to doctors continues to appeal to drug companies globally looking to reduce their overall promotion costs. The company has continued to expand overseas by buying specialist medical websites in Europe and by forming an alliance with an American company that has close relationships with a high proportion of US physicians. **Digital Garage**, an internet investment company with stakes in Japan's leading price comparison website and Twitter amongst others, was another one of the better performing holdings.

Even in older segments of the economy Japanese companies are harnessing the power of the internet. **Monotaro**, which supplies a huge variety of components to small manufacturing businesses, has developed an advanced online distribution system that has been winning customers away from inefficient, small traditional wholesalers. The strength of Monotaro's supply chain was highlighted in the aftermath of the earthquake; thanks to the inventory stored at its vast, industry leading, distribution centres, the company was one of the few distributors that managed to continue reliably supplying customers.

Given the market's worries about the direction of the global economy over the course of the year and the consequent impact on exporting companies, it is perhaps unsurprising that some of the domestic healthcare related holdings with good demand for their services and products performed well.

Message, a leading but still expanding operator of residential care homes for the elderly is benefitting from the rising demand for such facilities nationally. Our retail pharmacy operators, **Cocokara Fine** and **Cosmos Pharmaceutical**, are also doing well as demand for prescriptions increases and the market consolidates around a few efficient expanding chains that should dominate the market in the longer term.

This consolidation ties in with the pick-up in merger and acquisition activity in Japan, another positive and accelerating trend. Some companies are using their strong balance sheets and the yen's strength to expand overseas by acquiring international competitors; something that should increase their long term growth prospects. Indeed, last year witnessed a record amount of overseas deals by value for Japanese companies. Following disruption caused by the earthquake, many management teams appear to have re-evaluated their companies' long term prospects and adopted a more aggressive strategy. Domestically, many ageing small business owners, because they lack a successor, are also seeking mergers to secure a future for their company. This kind of action should help make currently fragmented markets more efficient in the long term and is good for **Nihon M&A**, a holding that specialises in merger advisory services. It is adding more and more consultants every year to help it deal with the increasing number of enquiries it is receiving thanks to strong relationships with local accountancy offices.

Management buy-outs and the trend by which parent companies buy out their listed subsidiaries continued to be a feature of the market as well. Management teams and business owners clearly think that the market is significantly undervaluing many listed smaller companies and taking things into their own hands as a result. Two Shin Nippon holdings were bid for over the year with the most recent offer, for property company **Sankei Building**, representing approximately a 150% premium to the share price at the time.

Some of our holdings, in particular those that rely more on overseas demand did not perform as well as hoped this year but we remain convinced of the long term prospects for investments that benefit from long term trends such as rising incomes in developing markets and the introduction of automated production processes as wage costs rise in other Asian countries.

Portfolio

Given our long term investment horizon, stock turnover within the portfolio over the year remained relatively low at just 19.7%. Several of the most recent purchases have been focused on the new, emerging areas of the economy mentioned earlier. Some of the new holdings were too small to invest in until recently, but the companies are increasing in value as the market recognises just how quickly earnings are progressing.

For example, **Bit-isle** is one of the leading operators of large data centres in Japan. Demand for data storage is rising rapidly as the penetration of data consumptive smartphones increases and as cloud computing becomes more popular. Obtaining permission for new data centres takes a long time given the power consumption of these buildings, so there is currently a significant shortage of storage capacity. Bit-isle is expanding some of its existing facilities and increasing the rental charges for its storage servers. **GMO Payment Gateway**, another recent investment, is a leading provider of payment processing services to shopping websites in Japan. GMO Payment has more than thirty thousand websites using its services and is a direct beneficiary of the rapid growth in the e-commerce market in Japan. **F@N Communications** is another example of a holding operating in a new industry that would not have existed just a decade or so ago. The company is one of Japan's largest providers of affiliate marketing services to companies looking to advertise on the internet. F@N Communications aggregates the details of huge numbers of tiny websites, particularly bloggers, and introduces them to large advertisers that are looking to place adverts on specialist websites where readers should be more interested in buying a related product. F@N Communications earns a commission when customers click through and buy from the original advertisers' website.

Other recent new purchases in more traditional parts of the economy include **Endo Lighting**, a company that designs, manufactures and installs architectural lighting in large commercial facilities. The company has been swift to switch to focus on energy efficient LED lighting systems and many companies, including supermarkets and convenience stores, have been rushing to introduce new lighting systems in the wake of the power shortages that followed the devastation at the Fukushima power plant. Another new holding that has seen existing beneficial trends accelerate since the natural disasters last year is **Siix Corp**. This company provides outsourced manufacturing and assembly services to the Japanese automobile and consumer electronics industries at low cost plants around the rest of Asia. Interest in Siix' services has been picking up following the disruption to supply chains in Japan last year as companies look to diversify their production base and minimise potential for disruption.

The portfolio continues to offer attractive exposure to a mix of smaller Japanese growth companies that are expanding both in Japan, by innovating or disrupting an existing market, and by tapping into rising demand in overseas markets.

Outlook

The Japanese economy should benefit this year as the long awaited reconstruction programmes finally commence in the regions worst affected by the tsunami. Furthermore, recent moves by the Bank of Japan suggest that the Japanese authorities may be adopting a more proactive stance towards weakening the yen, which would help sentiment towards the Japanese market as a whole. Japan tends to perform well when the global economy is expanding, so the tentative signs that the US economy may be recovering are encouraging. We are finding many new and interesting investment ideas and Shin Nippon's portfolio of dynamic, high growth, lowly valued stocks is well placed to benefit from a variety of investment themes.

Baillie Gifford & Co
21 March 2012

Portfolio Performance Attribution for the Year to 31 January 2012*

Computed relative to the comparative index†

Portfolio breakdown	Index asset allocation 31.01.11 %	Index asset allocation 31.01.12 %	Shin Nippon asset allocation 31.01.11 %	Shin Nippon asset allocation 31.01.12 %	Performance# Shin Nippon %	Performance# Index %	Contribution to relative return %	Contribution attributable to: Stock selection %	Asset allocation %	Gearing %
Consumer Discretionary	21.6	20.8	31.0	25.1	(4.9)	5.9	(2.4)	(2.8)	0.4	–
Consumer Staples	8.5	10.1	6.7	10.4	16.8	11.3	0.4	0.3	0.1	–
Energy	0.7	0.7	2.3	1.3	(0.5)	5.7	(0.1)	(0.2)	0.1	–
Financials	18.5	18.1	8.1	7.1	(3.8)	(2.6)	0.1	(0.2)	0.3	–
Healthcare	4.5	4.6	13.0	14.6	7.1	8.3	0.5	(0.3)	0.8	–
Industrials	22.7	22.9	23.8	24.2	2.7	1.8	0.3	0.3	–	–
Information Technology	10.9	10.2	12.2	14.6	(0.8)	(9.8)	0.9	1.0	(0.1)	–
Materials	12.2	12.3	2.9	2.7	9.4	(6.9)	1.2	0.4	0.8	–
Telecommunication Services	0.1	–	–	–	–	–	–	–	–	–
Utilities	0.3	0.3	–	–	–	1.3	–	–	–	–
Total (excluding gearing)	**100.0**	**100.0**	**100.0**	**100.0**	**1.3**	**0.5**	**0.8**	**(1.5)**	**2.3**	**–**
Impact of gearing					(1.7)	–	(1.7)	–	–	(1.7)
Total (including gearing)‡	**100.0**	**100.0**	**100.0**	**100.0**	**(0.4)**	**0.5**	**(0.9)**	**(1.5)**	**2.3**	**(1.7)**

Past performance is not a guide to future performance.

Source: Baillie Gifford & Co/StatPro.

Contributions cannot be added together, as they are geometric; for example to calculate how a return of 1.3% against an index return of 0.5% translates into a relative return of 0.8%, divide the portfolio return of 101.3 by the index return of 100.5 and subtract one.

* The performance attribution table is based on total assets.

† The comparative index for the year to 31 January 2012 was the MSCI Japan Small Cap index, total return and in sterling terms.

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

‡ The total return performance of (0.4%) excludes expenses and therefore differs from the NAV return (after deducting borrowings at fair value) of (1.7%) as a result.

Investment Changes (£'000)

	Valuation at 31 January 2011	Net acquisitions/ (disposals)	Appreciation/ (depreciation)	Valuation at 31 January 2012
Equities:				
Consumer Discretionary	19,423	(2,793)	(909)	15,721
Consumer Staples	4,240	1,538	743	6,521
Energy	1,481	(601)	(76)	804
Financials	5,105	(309)	(360)	4,436
Healthcare	8,282	530	366	9,178
Industrials	15,162	(99)	138	15,201
Information Technology	7,729	1,600	(210)	9,119
Materials	1,823	(157)	52	1,718
Total investments	63,245	(291)	(256)	62,698
Net liquid assets	1,184	405	75	1,664
Total assets	64,429	114	(181)	64,362
Bank loans	(8,763)	–	(794)	(9,557)
Shareholders' funds	**55,666**	**114**	**(975)**	**54,805**

Distribution of Total Assets

Industry	Listings

Portfolio Weightings Relative to Comparative Index

Twenty Largest Equity Holdings

Name	Business	2012 Value £'000	2012 % of total assets	2011 Value £'000
Start Today	Internet fashion retailer	2,925	4.5	3,537
Message	Provides nursing services for the elderly	2,883	4.5	2,723
Don Quijote	Discount store chain	2,514	3.9	2,151
Nabtesco	Hydraulic equipment	2,060	3.2	2,872
Hamakyorex	Third party logistics	1,911	3.0	1,874
Cocokara Fine	Drugstore chain	1,766	2.7	1,409
Monotaro	Supplies small machinery parts	1,689	2.6	809
M3	Online medical database	1,583	2.5	1,372
Nakanishi	Dental equipment	1,494	2.3	1,558
First Juken	Builds and sells residential buildings	1,461	2.3	1,656
Unipres	Manufactures automotive components	1,460	2.3	934
Daikokutenbussan	Discount store for food and sundry goods	1,428	2.2	1,657
EPS	Clinical testing services	1,418	2.2	1,800
Osaka Securities Exchange	Stock exchange operator	1,370	2.1	1,183
FP Corp	Manufacture and sale of food containers	1,218	1.9	1,072
Nihon M&A Center	M&A advisory services	1,191	1.8	828
Dainippon Screen Manufacturing	Manufacturer of graphic arts equipment	1,151	1.8	1,241
Nippon Information Development	Computer system integration services	1,136	1.8	967
Iriso Electronics	Specialist connectors	1,134	1.8	1,171
Pronexus	Financial printing services	1,124	1.7	1,127
		32,916	**51.1**	**31,941**

Review of Investments

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

NEW HOLDINGS

Endo Lighting

1.3% of total assets

Endo Lighting manufactures and sells commercial use lighting systems. The company is the second largest player in the domestic market and has been swift to switch its product mix over to focus on energy efficiency LED lights. Orders have been increasing sharply in recent months as businesses and public buildings switch over to LED lighting to reduce their power consumption after the earthquake. This demand should continue for some time and Endo's profitability should also increase because LED lights are higher margin products.

Bit-isle

1.0% of total assets

Bit-Isle is one of the leading operators of large data centres in Japan. Demand for data storage is rising rapidly as the penetration of smart phones increases and as "cloud" computing becomes more popular. It takes a long time for new data centre capacity to be brought on and there is not enough capacity at present, so the outlook for the prices that Bit-isle can charge its customers, such as the mobile phone gaming companies, is promising.

GMO Payment Gateway

0.7% of total assets

Online shopping is gaining popularity in Japan and GMO Payment Gateway, as a leading provider of online payment processing services, stands well placed to benefit. The company has over thirty thousand merchants signed up to use its services for their websites. It only makes financial sense for the very largest online retailers to build payment processing infrastructure for themselves. We view the company as an attractive direct beneficiary of the rapid growth in e-commerce transaction volumes.

F@N Communications

0.7% of total assets

F@N Communications is a leader in providing affiliate marketing services in the online/mobile environment in Japan. The company aggregates the details of lots of specialist small websites which seek advertising revenues and introduces them to the larger advertisers. F@N Communications earns commissions based on the number of customers who click through the advert to enter the advertisers' websites. As such it benefits not just from the rise in e-commerce but also from the increasing demand for more sophisticated online advertising techniques.

Siix Corp

1.0% of total assets

Siix Corp provides outsourced manufacturing and assembly services to the automobile and technology industries at its low cost production sites around Asia. Japanese companies had already been shifting production overseas to take advantage of lower production costs and regional demand from the rest of Asia. This trend seems to have accelerated since the earthquake as companies look to reduce the risk of having most of their production concentrated in one location. Siix Corp seems well placed to take advantage of this shift.

TOP 10

Start Today

4.5% of total assets

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

Message

4.5% of total assets

Message is one of Japan's largest nursing home operators, having grown thanks to its well positioned 'Amille' homes which offer a much lower cost service than those of its rivals. Message maintains high occupancy rates and high margins by not charging new residents a large entry fee. It has become harder to open new nursing homes in recent years due to regulatory tightening but Message has responded by expanding into the less regulated market for supervised senior housing blocks where a lower level of care is required. However, long term profit growth in the core nursing home segment should be assured by Japan's aging demographic and the structural shift in Japanese society away from looking after the elderly at home. The company has acquired a rival recently that had a presence in a different region of Japan.

Don Quijote

3.9% of total assets

Don Quijote operates a chain of large discount stores. The company's unique format provides enjoyment for customers as they search through the huge selection of discounted products, including clothes, household goods, cosmetics, packaged food and electronics. The majority of customers visit the stores in the evenings, many viewing the experience as a form of low cost entertainment. Don Quijote's strength lies in its efficient supply chain management system which allows it to set prices at low levels to attract customers. The company has purchased several underperforming retail chains at extremely low valuations and management is converting these shops and integrating them into the supply chain system to improve margins. This seems a sensible way to expand the core business and is cheaper than building new stores.

Nabtesco

3.2% of total assets

Nabtesco is a machinery company that focuses on products in expanding markets where that company can capture a high global market share. For example, Nabtesco makes about 60% of the special joints required for industrial robots around the world. This market is expanding rapidly as production sites in emerging markets automate their production processes to offset the impact of rising labour costs.

The company also has high market share in the mechanisms for opening and closing high-speed train doors and hydraulic equipment for large construction machinery. Both these product categories are benefiting from the long term rise in demand from the rest of Asia. Nabtesco's dominant market positions help the company to achieve high levels of profitability as revenues increase.

Hamakyorex

3.0% of total assets

Internal subsidiaries have traditionally handled the distribution of supplies for retailers in Japan. Specialist third party logistics providers, such as Hamakyorex, have only started to emerge in recent years as retailers look to outsource the distribution function to cut costs. Hamakyorex has grown profits by expanding its network of modern and efficient distribution centres across Japan which has helped persuade more retail chains to use its services. The company has a very strong cost-cutting culture and employees at its logistics facilities are encouraged to save their customers money in any way possible. The third party logistics market is very underdeveloped in Japan and long term growth seems assured as retailers and other types of business look to save money by focussing on their core operations.

Cocokara Fine

2.7% of total assets

Cocokara Fine is the result of several mergers and acquisitions within the retail pharmacy industry in Japan. The company is now the third largest chain in terms of sales and has over 1,000 stores in total. Demand for prescriptions and other healthcare related products is increasing as the Japanese population ages, and the competitive position for the larger chains is improving as struggling independent stores go out of business. Cocokara Fine tends to leave the branding of an acquired small chain unchanged because there is often a strong element of local customer loyalty. However, the profitability of acquired chains is improved by centralising sourcing, so better deals from suppliers are secured, and the proportion of sales from higher margin private brands is often increased as well.

Monotaro

2.6% of total assets

Monotaro sells factory consumables and other every day necessities directly to small businesses in Japan. The majority of orders are placed on the company's website as more and more Japanese small companies order their supplies online to secure discounts. The number of registered customers is increasing rapidly and margins are rising as private brand products increase as a proportion of total sales. In the past, small businesses would have used a vast array of small local wholesalers to distribute supplies, but the limitations of this type of supply chain were highlighted immediately after the earthquake. Over this period, Monotaro won praise and lots of new customers for continuing to distribute supplies reliably across the country from its large distribution centres.

M3 Inc

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 shows little sign of slowing. Furthermore, M3 is trying to replicate the model overseas and has obtained a worthwhile foothold in the US in several areas such as cardiology and oncology. Some small acquisitions in Europe will help the company develop its network of doctors there.

Nakanishi

2.3% of total assets

Nakanishi manufactures dental equipment such as drills and grinders. The company is number two globally and sells its products in over 100 countries. Whilst developed economies are fairly mature in terms of dental healthcare, there is significant growth potential in emerging economies as standards of living rise and hygiene regulations are tightened. Nakanishi looks particularly well placed to exploit growth in the Chinese market where it has a high market share. The company is very profitable with operating margins above 30% and has a large amount of cash on the balance sheet.

First Juken

2.3% of total assets

First Juken is a house builder operating in the regions around Osaka. In previous periods when demand for housing was rising the company achieved amongst the highest profit margins in the industry. This is due to management's careful pace of expansion and rigorous focus on costs by making extensive use of outsourcing. Being twice the size of its closest local rival allows First Juken preferential access to new plots of land for development. The outlook for the company is good because demand for low-cost housing appears to be recovering, driven by special low rate mortgages and tax incentives, while the initial cost of land has not started to pick up notably yet.

Name	Where listed	Business	Value £'000	% of total assets
Consumer Discretionary				
Ahresty	TOKYO 2nd	Diecast products for auto industry	474	0.7
Asics	TOPIX Mid	Sports shoes and clothing	984	1.5
Don Quijote	TOPIX Mid	Discount store chain	2,514	3.9
First Juken	OSAKA	Builds and sells residential buildings	1,461	2.3
Foster Electric	TOPIX Small	Headphone manufacturer	788	1.2
Futaba Industrial	TOPIX Small	Autoparts manufacturer	679	1.1
H.I.S.	TOPIX Small	Discount travel agency	1,077	1.7
Hajime Construction	JASDAQ	Residential property developer	528	0.8
Next	TOPIX Small	Real estate leasing and sale information	416	0.6
Nifco	TOPIX Mid	Industrial fastener manufacturer	821	1.3
Shoei	TOKYO 2nd	Manufactures motor cycle helmets	775	1.2
Start Today	TSE Mothers	Internet fashion retailer	2,925	4.5
T-Gaia	TOPIX Small	Mobile telephone retailer	819	1.3
Unipres	TOPIX Small	Manufactures automotive components	1,460	2.3
			15,721	24.4
Consumer Staples				
Calbee	TOPIX Small	Branded snack foods	816	1.3
Cocokara Fine	TOPIX Small	Drugstore chain	1,766	2.7
Cosmos Pharmaceuticals	TOPIX Small	Drugstore chain	793	1.2
Daikokutenbussan	TOKYO 2nd	Discount store for food and sundry goods	1,428	2.2
Pigeon	TOPIX Small	Baby care products	846	1.3
Pola Orbis Holdings	TOPIX Small	Manufactures a wide range of cosmetic products	872	1.4
			6,521	10.1
Energy				
Modec	TOPIX Small	Oil extraction machinery	804	1.2
			804	1.2
Financials				
Aeon Mall	TOPIX Mid	Shopping mall developer	654	1.0
Funai Zaisan Consultants	TSE Mothers	Consulting services	293	0.5
Osaka Securities Exchange	JASDAQ	Stock exchange operator	1,370	2.1
Sankei Building	TOPIX Small	Leases real estate properties	949	1.5
Takara Leben	TOPIX Small	Leasing and management of real estate	574	0.9
Tokyu Livable	TOPIX Small	Real estate brokerage	596	0.9
			4,436	6.9
Healthcare				
EPS	TOPIX Small	Clinical testing services	1,418	2.2
M3	TOPIX Small	Online medical database	1,583	2.5
Message	JASDAQ	Provides nursing services for the elderly	2,883	4.5
Nakanishi	JASDAQ	Dental equipment	1,494	2.3
Nikkiso	TOPIX Small	Industrial pumps and medical equipment	951	1.5
Sysmex	TOPIX Mid	Manufactures equipment for clinical testing	849	1.3
			9,178	14.3

Name	Where listed	Business	Value £'000	% of total assets
Industrials				
Aeon Delight	TOPIX Small	Building maintenance company	548	0.9
Endo Lighting	TOPIX Small	Energy efficient lighting	808	1.3
Fuji Machine Manufacturing	TOPIX Small	Semiconductor manufacturing equipment	774	1.2
Hamakyorex	TOPIX Small	Third party logistics	1,911	3.0
Hoshizaki Electric	TOPIX Mid	Manufactures kitchen equipment	975	1.5
JFE Shoji	TOPIX Small	Steel trading	780	1.2
JP Holdings	TOKYO 2nd	Operates child-care facilities	570	0.9
Monotaro	TOPIX Small	Supplies small machinery parts	1,689	2.6
Nabtesco	TOPIX Mid	Hydraulic equipment	2,060	3.2
Nihon M&A Center	TOPIX Small	M&A advisory services	1,191	1.8
Nippon Thompson	TOPIX Small	Needle roller bearings	932	1.4
Pronexus	TOPIX Small	Financial printing services	1,124	1.7
Skymark Airlines	TSE Mothers	Low-cost airline	571	0.9
Space	TOKYO 2nd	Interior design for retailers	164	0.3
Takeuchi Manufacturing	JASDAQ	Manufactures and sells construction machinery	305	0.5
Toshiba Plant Systems and Services	TOPIX Small	Plant engineering company	799	1.2
			15,201	23.6
Information Technology				
Bit-isle	JASDAQ	Data centre operator	613	1.0
Capcom	TOPIX Mid	Software developer	593	0.9
Dainippon Screen Manufacturing	TOPIX Mid	Manufacturer of graphic arts equipment	1,151	1.8
Digital Garage	JASDAQ	Internet business incubator	843	1.3
F@N Communications	JASDAQ	Internet advertising services	445	0.7
GMO Payment Gateway	JASDAQ	Online payment processing	425	0.7
Horiba	TOPIX Mid	Manufacturer of measuring instruments and analysers	1,098	1.7
Iriso Electronics	JASDAQ	Specialist connectors	1,134	1.8
Nippon Information Development	JASDAQ	Computer system integration services	1,136	1.8
Optex	TOPIX Small	Infrared detection devices	603	0.9
Siix Corp	JASDAQ	Outsourced overseas production	634	1.0
Synergy Marketing	JASDAQ	Cloud computing services	444	0.7
			9,119	14.3
Materials				
FP Corp	TOPIX Small	Manufacture and sale of food containers	1,218	1.9
Shikoku Chemicals	TOPIX Small	Speciality chemicals for electronics industry	500	0.8
			1,718	2.7
Total investments			**62,698**	**97.5**
Net liquid assets			**1,664**	**2.5**
Total assets			**64,362**	**100.0**
Bank loans			**(9,557)**	**(14.8)**
Shareholders' funds			**54,805**	**85.2**

Directors' Report

The Directors present their Report together with the financial statements of the Company for the year to 31 January 2012.

Business Review

Business and Status

The Company is an investment company within the meaning of section 833 of the Companies Act 2006.

The Company carries on business as an investment trust. It was approved as an investment trust under section 1158 of the Corporation Tax Act 2010 for the year ended 31 January 2011, subject to matters that may arise from any subsequent enquiry by HM Revenue & Customs into the Company's tax return. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to seek approval under section 1158 of the Corporation Tax Act 2010.

Objective and Policy

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

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

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

On acquisition, no holding shall exceed 3% of the portfolio and any holding that as a result of good performance exceeds 5% of the portfolio is subject to particular scrutiny. A holding greater than 5% will continue to be held where the Managers are convinced of the ongoing merits of the investment case.

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

From time to time, fixed interest holdings, or non equity investments, may be held on an opportunistic basis. The Company may use derivatives which will be principally, but not exclusively, for the purpose of efficient portfolio management (i.e. for the purpose of reducing, transferring or eliminating investment risk in its investments, including protection against currency risks).

The Company recognises the long term advantages of gearing. Although the Company may have maximum equity gearing of 50% of shareholders' funds, the Board would seek to have a maximum equity gearing level of 30% of shareholders' funds at the time of drawdown.

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

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

Performance

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

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 ordinary share compared to the comparative index;
- the movement in the share price;
- the discount; and
- the total expense ratio.

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

A historical record of the KPIs is shown on pages 1 to 4.

Financials
The net asset value per share (after deducting borrowings at fair value) decreased by 1.7% during the year, compared to an increase in the comparative index of 0.5%, and the discount of the share price to net asset value narrowed from 8.8% to 4.9%. During the year, the Company refinanced its borrowings with The Royal Bank of Scotland plc. The 7 year ¥1,150 million loan matured on 10 August 2011 and was replaced by a 3 year ¥1,150 million loan at 2.24% maturing on 8 August 2014.

Dividend
The revenue reserve remains in deficit despite a net return of £98,000. Consequently the Company is unable to pay a dividend.

Review of the Year and Future Trends
A review of the year and the investment outlook is contained in the Chairman's Statement on pages 5 to 6 and the Managers' Report on pages 8 to 10.

Principal Risks and Uncertainties
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 19 to the Financial Statements on page 40.

Other risks faced by the Company include the following:

Regulatory Risk – failure to comply with applicable legal and regulatory requirements could lead to suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report. Breach of section 1159 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains.

The Managers monitor investment movements and the level of forecast income and expenditure to ensure the provisions of section 1159 are not breached.

Baillie Gifford's Heads of Business Risk & Internal Audit and Regulatory Risk provide regular reports to the Audit Committee on Baillie Gifford's monitoring programmes.

Major regulatory change could impose unnecessary compliance burdens on the Company or threaten the viability of the investment company structure. In such circumstances representation is made to ensure that the special circumstances of investment trusts are recognised.

Operational/Financial Risk – failure of the Managers' accounting systems or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a misappropriation of assets. The Managers have a comprehensive business continuity plan which facilitates continued operation of the business in the event of a service disruption or major disaster. The Board reviews the Managers' Report on Internal Controls and the reports by other key third party providers are reviewed by the Managers on behalf of the Board.

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

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

All borrowings require the prior approval of the Board and gearing levels are discussed by the Board and Managers at every meeting. The majority of the Company's investments are in quoted securities that are readily realisable.

Employees
The Company has no employees. The executive responsibility for investment management has been delegated to Baillie Gifford & Co.

Social and Community Issues
As an investment trust, the Company has no direct social or community responsibilities. The Company, however, believes that it is in the shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments. Details of the Company's policy on socially responsible investment can be found under Corporate Governance and Stewardship on page 22.

Corporate Governance
The Board is committed to achieving and demonstrating high standards of Corporate Governance. This statement outlines how the principles of the June 2010 UK Corporate Governance Code, (the 'Code') which can be found at **www.frc.org.uk**, and of the AIC Code of Corporate Governance, (the 'AIC Code') which can be found at **www.theaic.co.uk**, were applied throughout the financial year.

The AIC Code provides a framework of best practice for investment companies.

Compliance
The Board confirms that the Company has complied throughout the year under review with the relevant provisions of the Code and the recommendations of the AIC Code except that there is no designated senior independent director.

The Directors do not believe that it is necessary to have a separate senior independent director due to the small size of the Board. Shareholders may address their concerns to any Board member.

The Board
The Board has overall responsibility for the Company's affairs. It has a number of matters reserved for its approval including strategy, investment policy, currency hedging, gearing, treasury matters, dividend and corporate governance policy. The Board also reviews the financial statements, investment transaction reports, revenue budgets and performance. Full and timely information is provided to the Board to enable the Board to function effectively and to allow Directors to discharge their responsibilities.

The Board comprises five Directors, all of whom are non-executive. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The executive responsibilities for investment management have been delegated to the Company's Managers and Secretaries, Baillie Gifford & Co. There is, therefore, no chief executive officer.

The Directors believe that the Board has a balance of skills and experience that enable it to provide effective leadership and proper governance of the Company. On 4 October 2011 Mr AJ Tulloch retired from the Board and Mrs MR Somerset Webb was appointed. Information about the Directors, including their relevant experience, can be found on page 7.

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

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

Terms of Appointment

Letters that specify the terms of appointment are issued to new Directors. The letters of appointment are available for inspection on request.

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

Independence of Directors

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

The Board is of the view that length of service will not necessarily compromise the independence or contribution of Directors of an investment trust company, where continuity and experience can be of benefit to the Board. The Board concurs with the view expressed in the AIC Code that "Independence stems from the ability to make those objective decisions that may be in conflict with the interests of management". Directors are, however, required to retire and, if appropriate, seek re-election at least every three years. Directors who have more than nine years' service submit themselves for re-election annually. The Board is not controlled by long serving Directors. Mr BM Rose has served on the Board for more than nine years. The Board believes strongly that Mr BM Rose's independence and contribution to the Board has not been compromised by his length of service and that this has been evidenced by his actions and decisions. Following a formal performance evaluation on 26 January 2012, the Board believes that he continues to be independent. The Board considers that none of Mr BM Rose's other commitments, as set out on page 7 of this report, interfere with the discharge of his duties to the Company and the Board is satisfied that he is capable of devoting sufficient time to the Company.

Meetings

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

Directors' Attendance at Meetings

	Board	Audit Committee	Nomination Committee
Number of meetings	**6**	**2**	**2**
BM Rose	6	2	2
PF Charig	6	2	2
IA McLaren	6	2	2
SCN Somerville	6	2	1
MR Somerset Webb (appointed 4 October 2011)	2	–	1
AJ Tulloch (retired 4 October 2011)	3	2	–

The table above shows the attendance record for the Board and Committee meetings held during the year. All the Directors attended the Annual General Meeting.

Nomination Committee

The Nomination Committee consists of the whole Board and the Chairman of the Board is Chairman of the Committee. The Committee meets at least annually and at such other times as may be required. The Committee has written terms of reference that include reviewing the Board, identifying and nominating new candidates for appointment to the Board, Board appraisal, succession planning and training. The Committee also considers whether Directors should be recommended for re-election by shareholders. The Committee is also responsible for considering Directors' potential conflicts of interest and for making recommendations to the Board on whether or not the potential conflicts should be authorised. The terms of reference are available on request from the Company and on the Company's website: **www.shinnippon.co.uk**.

During the year the Nomination Committee initiated the search for a new non-executive Director. The Committee identified the skills and experience that would be required, having due regard for the benefits of diversity on the Board, and candidates were interviewed from a shortlist of names provided by an external search agency. Mrs MR Somerset Webb was identified as the preferred candidate due to her strong interest in and knowledge of Japan, and extensive financial expertise. She was appointed to the Board on 4 October 2011.

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 26 January 2012. The Chairman met individually with each Director after they had completed a performance evaluation questionnaire. The non-executive Directors reviewed the Chairman's performance.

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

A review of the Chairman's and other Directors' commitments was carried out and the Nomination Committee is satisfied that they are

capable of devoting sufficient time to the Company. There were no significant increases to the Chairman's and Directors' other commitments during the year.

Induction and Training

New Directors appointed to the Board 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, the provisions of the UK Corporate Governance Code in respect of Directors' remuneration are not relevant to the Company except to the extent that they relate specifically to non-executive directors. Consequently 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 25 and 26.

Internal Controls and Risk Management

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

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company in accordance with the guidance 'Internal Control: Revised Guidance for Directors on the Combined Code'.

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

The practical measures to ensure compliance with regulation and company law, and to provide effective and efficient operations and investment management, have been delegated to the Managers and Secretaries, Baillie Gifford & Co, under the terms of the Management Agreement. The practical measures in relation to the design, implementation and maintenance of control policies and procedures to safeguard the assets of the Company and to manage its affairs properly, including the maintenance of effective operational and compliance controls and risk management have also been delegated to Baillie Gifford & Co. The Board acknowledges its responsibilities to supervise and control the discharge by the Managers and Secretaries of their obligations.

The Baillie Gifford & Co heads of Business Risk & Internal Audit and Regulatory Risk provide the Audit Committee with regular reports on Baillie Gifford & Co's monitoring programmes. The reporting procedures for these departments are defined and formalised within a service level agreement. Baillie Gifford & Co conduct an annual review of their system of internal controls which is documented within an internal controls report which complies with 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 auditors and a copy is submitted to the Audit Committee.

The Company's investments are segregated from those of Baillie Gifford & Co and its other clients through the appointment of Mizuho Corporate Bank Ltd and The Bank of New York Mellon as independent custodians of the Company's investments. The custodians prepare reports on their key controls and safeguards. The Mizuho internal controls report is reviewed by Ernst & Young Shin Nihon LLC and the Bank of New York Mellon report is reviewed by KPMG LLP.

A detailed risk map is prepared which identifies the significant risks faced by the Company and the key controls to manage these risks.

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

Internal Audit

The Audit Committee carries out an annual review of the need for an internal audit function. The Committee receives monitoring updates from Baillie Gifford & Co's Business Risk & Internal Audit and Regulatory Risk departments every six months. The Committee seeks written assurance annually from the Company's key third party service providers that they have not been aware of any fraud or had any suspicions of fraud over the Company's financial year. The Committee continues to believe that the compliance and internal control 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.

Accountability and Audit

The respective responsibilities of the Directors and the Auditors in connection with the Financial Statements are set out on pages 27 to 28.

Going Concern

In accordance with the Financial Reporting Council's guidance on going concern and liquidity risk issued in 2009, the Directors have undertaken a rigorous review of the Company's ability to continue as a going concern. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with loan covenants are reviewed by the Board on a regular basis. Accordingly, the financial statements have been prepared on the going concern basis as it is the Directors' opinion that the Company will continue in operational existence for the foreseeable future.

Audit Committee

An Audit Committee has been established consisting of all the independent Directors. Mr IA McLaren, a chartered accountant, is Chairman of the Audit Committee. The members of the Committee consider that they have the requisite financial skills and experience to fulfil the responsibilities of the Committee. Its authority and duties are clearly defined within its written terms of reference that are available on request from the Company and at **www.shinnippon.co.uk**.

The Committee's responsibilities, which were discharged during the year, include:

- monitoring and reviewing the integrity of the half-yearly and annual financial statements and any formal announcements relating to the Company's financial performance;
- reviewing the adequacy and effectiveness of internal control and risk management systems;
- making recommendations to the Board in relation to the appointment of the external auditors and approving the remuneration and terms of their engagement;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services (there were no non-audit services provided during the year);
- reviewing and monitoring the independence, objectivity and effectiveness of the external auditors;
- reviewing 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 insofar as they may affect the Company;
- reviewing the terms of the Investment Management Agreement; and
- considering annually whether there is a need for the Company to have its own internal audit function.

PricewaterhouseCoopers LLP have been engaged as the Company's auditors. During the year to 31 January 2008 the Committee carried out a formal review of the auditors and considered the services offered by alternative accounting firms. Following this review the Committee agreed the continuing appointment of PricewaterhouseCoopers LLP as auditors. The audit partners responsible for the audit are rotated every five years and the current lead audit partner has been in place for five years. Ms Karyn Lamont, the current lead audit partner, will be replaced by Ms Catrin Thomas. There are no contractual obligations restricting the Company's choice of independent auditor. Having considered the experience and tenure of the audit partner and staff and the level of service provided, the Committee remains satisfied with the auditors' effectiveness.

The Committee receives confirmation from the auditors that they have complied with the relevant UK professional and regulatory requirements on independence. The Committee does not believe that there has been any impairment to the auditors' independence.

The fees paid to the auditor for audit services are disclosed in note 4 on page 36.

Relations with Shareholders

The Board places great importance on communication with shareholders. The Company's Investment Manager meets regularly with shareholders and their representatives and reports to the Board. The Company broker and the Managers' sales team also have regular contact with current and potential shareholders. The Chairman and Directors are available to meet with shareholders as appropriate. Shareholders wishing to communicate with any members of the Board may do so by writing to them at the address on the back cover.

The Company's Annual General Meeting provides a forum for all communication with 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 the investment managers, Baillie Gifford & Co. The Managers vote against resolutions they consider may damage shareholders' rights or economic interests and report their actions to the Board.

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

The Managers are signatories to the United Nations Principles for Responsible Investment and the Carbon Disclosure Project.

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.

Bribery Act 2010

The Bribery Act came into force on 1 July 2011. 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.

Investment Managers

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

An Investment Management Agreement between the Company and Baillie Gifford & Co sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Management Agreement is terminable on not less than 6 months' notice or on shorter notice in certain circumstances. Details of the fee arrangements with Baillie Gifford & Co are shown in note 3 on page 36.

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. In addition, the Audit Committee formally reviews the management fees and the terms of the management agreement on an annual basis. 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 2011, the Board is in agreement that the continuing appointment of Baillie Gifford & Co as Managers, 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 satisfactory 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 total expense ratio is in the best interest of shareholders. The Board continues to give careful consideration to the basis of the management fee charged.

Directors

Information about the Directors, including their relevant experience, can be found on page 7.

Mrs MR Somerset Webb, having been appointed to the Board on 4 October 2011, is required to seek election by the shareholders at the Annual General Meeting. The Board recommends that shareholders vote in favour of her appointment.

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

Mr IA McLaren, having served for three years since election to the Board, will be retiring and offering himself for re-election at the Annual General Meeting.

Following formal performance evaluation, the performance of Mr BM Rose and Mr IA McLaren 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.

Directors' Interests

Name	Nature of interest	31 Jan 2012 Ordinary shares	31 Jan 2011 Ordinary shares
BM Rose	Beneficial	51,882	51,882
PF Charig	–	–	–
IA McLaren	Beneficial	10,000	10,000
MR Somerset Webb	–	–	–
SCN Somerville	Beneficial	10,000	–

The Directors at the year end, and their interests in the Company, were as shown above. Following the year end, Mrs MR Somerset Webb purchased 3,557 shares in respect of which she has a beneficial interest. There have been no other changes intimated in the Directors' interests up to 19 March 2012.

Director Indemnification and Insurance

The Company has entered into deeds of indemnity in favour of each of the Directors. The deeds cover any liabilities that may arise to a third party, other than the Company, for negligence, default or breach of trust or duty. The Directors are not indemnified in respect of liabilities to the Company, any regulatory or criminal fines, any costs incurred in connection with criminal proceedings in which the Director is convicted or civil proceedings brought by the Company in which judgement is given against him or her. In addition, the indemnity does not apply to any liability to the extent that it is recovered from another person.

The indemnities were in force during the year and at the year end. Mrs MR Somerset Webb was provided with an indemnity subsequent to her appointment on 4 October 2011.

The Company maintains Directors' and Officers' Liability Insurance.

Major Interests in the Company's Shares

Name	No. of ordinary 10p shares held at 31 Jan 2012	% of shares in issue
Baillie Gifford & Co and Baillie Gifford Overseas Ltd (indirect)	2,714,000	8.7
South Yorkshire Pensions Authority	2,065,000	6.6
MAM Funds PLC (indirect)	1,990,000	6.4
Rensburg Sheppards Investment Management Limited (indirect)	920,532	3.0
Arbiter Partners, LP	710,000	2.3

There have been no changes to the major interests in the Company's shares intimated up to 19 March 2012.

Share Capital

Capital Structure

The Company's capital structure consists of 31,100,497 ordinary shares of 10p each at 31 January 2012 (2011 – 31,100,497 ordinary shares). There are no restrictions concerning the holding or transfer of the Company's ordinary shares and there are no special rights attached to any of the shares.

Capital Entitlement

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

Voting
Each ordinary shareholder present in person or by proxy is entitled to one vote on a show of hands and, on a poll, to one vote for every share held.

Information on the deadlines for proxy appointments can be found on page 45.

Share Issuance Authority
At the last Annual General Meeting, the Directors were granted authority to issue shares up to an aggregate nominal amount of £589,950, and to issue shares or sell shares held in treasury on a non-pre-emptive basis for cash up to an aggregate nominal amount of £155,502. These authorities are due to expire at the Annual General Meeting on 4 May 2012. Resolution 8 in the Notice of Annual General Meeting seeks to renew the Directors' general authority to issue shares up to an aggregate nominal amount of £589,950. This amount represents 18.97% of the Company's total ordinary share capital currently in issue and meets institutional guidelines. No issue of ordinary shares will be made pursuant to the authorisation in Resolution 8 which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Resolution 9, which is proposed as a special resolution, seeks to renew the Directors' authority 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 £155,502 (representing 5% of the issued ordinary share capital of the Company as at 19 March 2012). The authorities sought in Resolutions 8 and 9 will continue until the conclusion of the Annual General Meeting to be held in 2013 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 re-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. No shares were issued during the year to 31 January 2012 and no shares were held in treasury as at 19 March 2012.

Market Purchases of Own Shares
At the last Annual General Meeting, the Company was granted authority to purchase up to 4,661,964 ordinary shares (equivalent to 14.99% of its issued share capital), such authority to expire at the 2012 Annual General Meeting. The Directors are seeking shareholders' approval at the Annual General Meeting to renew the authority to make market purchases of up to 4,661,964 ordinary shares representing approximately 14.99% of the Company's ordinary shares in issue at the date of passing of the resolution, such authority to expire at the Annual General Meeting of the Company to be held in 2013.

No shares were bought back during the year under review.

The principal reasons for share buy-backs are:

(i) to enhance net asset value for continuing shareholders by purchasing shares at a discount to the prevailing net asset value;

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

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

(a) sell such shares (or any of them) for cash (or its equivalent under the Treasury Shares Regulations); or

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

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

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

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

(i) 5 percent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and

(ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange.

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

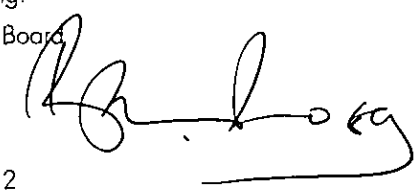
Recommendation
The Board unanimously recommends you to vote in favour of the resolutions to be proposed at the Annual General Meeting.

Creditor Payment Policy
It is the Company's payment policy for the forthcoming financial year to obtain the best terms for all business. In general, the Company agrees with its suppliers the terms on which business will take place and it is its policy to abide by these terms. The Company had no trade creditors at either 31 January 2011 or 31 January 2012.

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 ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

By order of the Board



Barry M Rose
Chairman
21 March 2012

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 28 and 29.

Remuneration Committee

The Company has five Directors all of whom are non-executive. There is no separate remuneration committee and the Board as a whole considers changes to Directors' fees from time to time. Baillie Gifford & Co, who have been appointed by the Board as Managers and Secretaries, provide advice and comparative information when the Board considers the level of Directors' fees.

Policy on 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, responsibilities and time commitment of the role and consistent with the requirement to attract and retain Directors of the appropriate quality and experience. It should also 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. It is intended that this policy will continue for the year ending 31 January 2013 and subsequent years.

The Board carried out a review of the level of Directors' fees in March 2011 and, as reported previously, concluded that the fees should be increased from £22,500 to £25,000 for the Chairman, from £17,000 to £22,500 for the Chairman of the Audit Committee and from £16,000 (including an additional £2,000 for serving on the Audit Committee) to £20,000 (with no additional fee for serving on the Audit Committee) for the other Directors. The increases were effective from 1 February 2011. Mr AJ Tulloch elected to waive his entitlement to that increase which amounted to £2,696 for the period until he retired on 4 October 2011.

The fees for the non-executive Directors are determined within an aggregate limit set out in the Company's Articles of Association, which currently stands at £150,000. Non-executive Directors are not eligible for any other remuneration apart from the reimbursement of allowable expenses.

Directors' Remuneration for the Year (audited)

The Directors received the following remuneration in the form of fees.

	Fees 2012 £	Fees 2011 £
Directors who served during the year:		
BM Rose (Chairman)	25,000	22,500
PF Charig	20,000	16,000
IA McLaren	22,500	17,000
MR Somerset Webb (appointed 4 October 2011)	6,534	–
SCN Somerville	20,000	9,973
AJ Tulloch (retired 4 October 2011)	10,784	16,000
	104,818	**81,473**
Past Directors:		
SJM Whitley (non-independent, retired 17 June 2010)	–	5,298
	104,818	**86,771**

Sums Paid to Third Parties (audited)

The following Directors' fees were paid to third parties:

- SCN Somerville (paid to Jupiter Asset Management)
- AJ Tulloch (paid to First State Investments)
- SJM Whitley (paid to Baillie Gifford & Co)

The payments were for making their services available as Directors of the Company.

Directors' Service Contracts

It is the Board's policy that Directors do not have a service contract but are provided with letters of appointment. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment. Thereafter, they are obliged to retire and, subject to performance evaluation, if they wish, offer themselves for re-election no longer than every three years after that. Directors who have served on the Board for more than nine years will submit themselves for re-election annually. There is no notice period and no provision for compensation upon early termination of appointment.

Directors' Service Details

Name	Date of appointment	Due date for election/re-election
BM Rose	28 August 1998	AGM held in 2012
PF Charig	25 February 2005	AGM held in 2013
IA Mclaren	16 January 2009	AGM held in 2012
MR Somerset Webb	4 October 2011	AGM held in 2012
SCN Somerville	17 June 2010	AGM held in 2014

Company Performance

The graph opposite compares the total return (assuming all dividends are reinvested) to ordinary shareholders to the 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 rebased to 100 at 31 January 2007)

Past performance is not a guide to future performance.

Approval

The Directors' Remuneration Report on pages 25 and 26 was approved by the Board of Directors and signed on its behalf on 21 March 2012.

Barry M Rose
Chairman



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

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (Generally Accepted Accounting Practice). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed *and explained in the financial statements respectively; and*
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

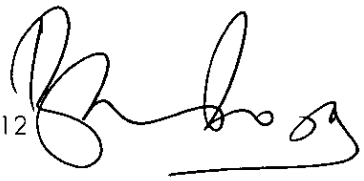
The Directors have delegated responsibility to the Managers for the maintenance and integrity of the Company's page on the Managers' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

- the financial statements, which have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) give a true and fair view of the assets, liabilities, financial position and net return of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Barry M Rose
Chairman
21 March 2012



Independent Auditors' Report

to the members of Baillie Gifford Shin Nippon PLC

We have audited the financial statements of Baillie Gifford Shin Nippon PLC for the year ended 31 January 2012 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, and the Reconciliation of Movements in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities as set out on page 27, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2012 and of its net losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 21, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Karyn Lamont (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

21 March 2012

Income Statement

For the year ended 31 January

	Notes	2012 Revenue £'000	2012 Capital £'000	**2012 Total £'000**	2011 Revenue £'000	2011 Capital £'000	**2011 Total £'000**
(Losses)/gains on investments*	8	–	(256)	**(256)**	–	12,795	**12,795**
Currency losses†	13	–	(703)	**(703)**	–	(812)	**(812)**
Income	2	1,219	–	**1,219**	1,108	–	**1,108**
Investment management fee	3	(546)	–	**(546)**	(503)	–	**(503)**
Other administrative expenses	4	(272)	–	**(272)**	(234)	–	**(234)**
Net return before finance costs and taxation		401	(959)	**(558)**	371	11,983	**12,354**
Finance costs of borrowings	5	(218)	–	**(218)**	(179)	–	**(179)**
Net return on ordinary activities before taxation		183	(959)	**(776)**	192	11,983	**12,175**
Tax on ordinary activities	6	(85)	–	**(85)**	(78)	–	**(78)**
Net return on ordinary activities after taxation		**98**	**(959)**	**(861)**	**114**	**11,983**	**12,097**
Net return per ordinary share	7	**0.32p**	**(3.08p)**	**(2.76p)**	**0.37p**	**38.53p**	**38.90p**

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

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

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued during the year.

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

The accompanying notes on pages 34 to 43 are an integral part of the financial statements.

Balance Sheet

At 31 January

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Fixed assets					
Investments	8		62,698		63,245
Current assets					
Debtors	9	182		124	
Cash and short term deposits	19	1,712		1,333	
		1,894		1,457	
Creditors					
Amounts falling due within one year	10	(230)		(9,036)	
Net current assets/(liabilities)			1,664		(7,579)
Total assets less current liabilities			64,362		55,666
Creditors					
Amounts falling due after more than one year	11		(9,557)		–
Total net assets			**54,805**		**55,666**
Capital and reserves					
Called up share capital	12		3,110		3,110
Share premium	13		7,674		7,674
Capital redemption reserve	13		21,521		21,521
Capital reserve	13		26,932		27,891
Revenue reserve	13		(4,432)		(4,530)
Shareholders' funds			**54,805**		**55,666**
Net asset value per ordinary share (after deducting borrowings at fair value)	14		**176.0p**		**179.0p**
Net asset value per ordinary share (after deducting borrowings at par value)	14		**176.2p**		**179.0p**

The Financial Statements of Baillie Gifford Shin Nippon PLC (Company Registration No. SC93345) were approved and authorised for issue by the Board on 21 March 2012.



Barry M Rose

Chairman

The accompanying notes on pages 34 to 43 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 January 2012

	Notes	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
Shareholders' funds at 1 February 2011		3,110	7,674	21,521	27,891	(4,530)	**55,666**
Net return on ordinary activities after taxation	13	–	–	–	(959)	98	**(861)**
Shareholders' funds at 31 January 2012		**3,110**	**7,674**	**21,521**	**26,932**	**(4,432)**	**54,805**

For the year ended 31 January 2011

	Notes	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
Shareholders' funds at 1 February 2010		3,110	7,674	21,521	15,908	(4,644)	**43,569**
Net return on ordinary activities after taxation	13	–	–	–	11,983	114	**12,097**
Shareholders' funds at 31 January 2011		**3,110**	**7,674**	**21,521**	**27,891**	**(4,530)**	**55,666**

The accompanying notes on pages 34 to 43 are an integral part of the financial statements.

Cash Flow Statement

For the year ended 31 January

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Net cash inflow from operating activities	15		342		440
Servicing of finance					
Interest and breakage costs paid		(255)		(171)	
Net cash outflow from servicing of finance			(255)		(171)
Taxation					
Overseas tax paid		(80)		(83)	
Total tax paid			(80)		(83)
Financial investment					
Purchases of investments		(12,120)		(9,016)	
Sales of investments		12,401		9,510	
Exchange differences on settlement of investment transactions		16		(47)	
Net cash inflow from financial investment			297		447
Increase in cash	16		**304**		**633**
Reconciliation of net cash flow to movement in net debt	16				
Increase/(decrease) in cash			304		633
Exchange movement on bank loans			(794)		(846)
Exchange differences on cash			75		81
Movement in net debt in the year			(415)		(132)
Opening net debt			(7,430)		(7,298)
Closing net debt			**(7,845)**		**(7,430)**

The accompanying notes on pages 34 to 43 are an integral part of the financial statements.

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1 Principal Accounting Policies

These financial statements have been prepared on the basis of the accounting policies set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Accounting

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, and on the assumption that approval as an investment trust under section 1158 of the Corporation Tax Act 2010 will continue to be granted.

The financial statements have been prepared in accordance with the Companies Act 2006, applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' issued in January 2009.

In order to reflect better the activities of the Company and in accordance with guidance issued by the AIC, supplementary information which analyses the profit and loss account between items of a revenue and capital nature has been presented in the Income Statement.

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

Financial assets and financial liabilities are recognised in the Company's balance sheet when it becomes a party to the contractual provisions of the instrument.

The Directors consider the Company's functional currency to be sterling as the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

(b) Investments

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

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

The fair value of other unlisted investments is determined by the Directors based upon latest dealing prices, stockbroker valuations, net asset values and other information, as appropriate.

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

(c) Cash and Short Term Deposits

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

(d) Income

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

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

(iii) Unfranked investment income includes taxes deducted at source.

(iv) Interest receivable on bank deposits and stock lending income 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.

(f) Finance Costs

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

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

(g) Deferred Taxation

Deferred taxation is provided on an undiscounted basis on all timing differences which have originated but not reversed by the balance sheet date, calculated at the tax rates expected to apply when the timing differences reverse, based on what has been enacted or substantially enacted, relevant to the benefit or liability. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which underlying timing differences can be deducted.

(h) Foreign Currencies

Transactions involving foreign currencies are converted at the rate ruling at the time of the transaction. Monetary assets, liabilities and equity investments held at fair value in foreign currencies are translated at the closing rates of exchange at the balance sheet date, with the exception of forward foreign exchange contracts which are valued at the forward rate ruling at the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the Income Statement and classified as a revenue or capital item as appropriate.

(i) Capital Reserve

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

2 Income

	2012 £'000	2011 £'000
Income from investments		
Listed overseas dividends	1,219	1,091
Unlisted overseas dividends – traded on the Hercules Japan market*	–	17
Total income	**1,219**	**1,108**
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	1,219	1,108
Total income	**1,219**	**1,108**

*Investments quoted on the Hercules Japan market were classified as unlisted as this market was not an official stock exchange until it merged with the JASDAQ market on 12 October 2010.

3 Investment Management Fee – all charged to revenue

	2012 £'000	2011 £'000
Investment management fee	**546**	**503**

Baillie Gifford & Co are employed by the Company as Managers and Secretaries under a management agreement which is terminable on not less than six months' notice or on shorter notice in certain circumstances. The fee in respect of each quarter is 0.25% of the total net assets of the Company attributable to its shareholders on the last day of that quarter.

Miss SJM Whitley, who was a Director of the Company until she retired on 17 June 2010, is a partner of Baillie Gifford & Co.

4 Other Administrative Expenses – all charged to revenue

	2012 £'000	2011 £'000
General administrative expenses	149	129
Directors' fees (see Directors' Remuneration Report on pages 25 and 26)	105	87
Auditors' remuneration – statutory audit of the Company's financial statements	18	18
	272	**234**

5 Finance Costs of Borrowings

	2012 £'000	2011 £'000
Financial liabilities not at fair value through profit or loss		
Interest on bank loans	**218**	**179**

6 Tax on Ordinary Activities

	2012 £'000	2011 £'000
Analysis of charge in year		
Overseas taxation	**85**	**78**
Factors affecting tax charge for year		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 26.33% (2011 – 28%)		
The differences are explained below:		
Net return on ordinary activities before taxation	(776)	12,175
Net return on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.33% (2011 – 28%)	(204)	3,409
Effects of:		
Capital returns not taxable	253	(3,355)
Income not taxable	(321)	(310)
Overseas withholding tax	85	78
Taxable losses in year not utilised	272	256
Current tax charge for the year	**85**	**78**

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

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the Company's profits for the year to 31 January 2012 are taxed at an effective rate of 26.33%.

Factors that may affect future tax charges

At 31 January 2012 the Company had a potential deferred tax asset of £1,818,000 (2011 – £1,703,000) on taxable losses which are available to be carried forward and offset against future taxable profits. A deferred tax asset has not been recognised on these losses as it is considered unlikely that the Company will make taxable revenue profits in the future and it is not liable to tax on its capital gains. The potential deferred tax asset has been calculated using a corporation tax rate of 25% (2011 – 27%).

Further reductions to the main rate of corporation tax are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 26% to 23%, if these applied to the deferred tax balance at 31 January 2012 would be to reduce the unrecognised deferred tax asset by £145,000.

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in 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

	2012 Revenue	2012 Capital	**2012 Total**	2011 Revenue	2011 Capital	**2011 Total**
Net return on ordinary activities after taxation	**0.32p**	**(3.08p)**	**(2.76p)**	**0.37p**	**38.53p**	**38.90p**

Revenue return per ordinary share is based on the net revenue return on ordinary activities after taxation of £98,000 (2011 – £114,000) and on 31,100,497 ordinary shares (2011 – 31,100,497) being the weighted average number of ordinary shares in issue during each year.

Capital return per ordinary share is based on the net capital loss for the financial year of £959,000 (2011 – net capital gain of £11,983,000) and on 31,100,497 ordinary shares (2011 – 31,100,497) being the weighted average number of ordinary shares in issue during each year.

There are no dilutive or potentially dilutive shares in issue.

8 Fixed Assets – Investments

	2012 £'000	2011 £'000
Financial assets at fair value through profit or loss		
Listed overseas – equity investments	62,698	63,245
Total investments in financial assets at fair value through profit or loss	**62,698**	**63,245**

	Listed equities £'000
Cost of investments held at 1 February 2011	**48,353**
Investment holding gains at 1 February 2011	**14,892**
Fair value of investments held at 1 February 2011	**63,245**
Movements in year:	
Purchases at cost	**12,120**
Sales – proceeds	**(12,411)**
– gains on sales	**2,015**
Changes in investment holding gains	**(2,271)**
Fair value of investments held at 31 January 2012	**62,698**
Cost of investments held at 31 January 2012	**50,077**
Investment holding gains at 31 January 2012	**12,621**
Fair value of investments held at 31 January 2012	**62,698**

The gains on sales of £2,015,000 and decrease in investment holding gains of £2,271,000 include amounts relating to: i) changes in local currency fair value of the investments and, ii) movements in the yen/sterling exchange rate.

The purchases and sales proceeds figures above include transaction costs of £8,000 (2011 – £5,000) and £9,000 (2011 – £6,000) respectively. Of the gains on sales during the year of £2,015,000 (2011 – gains of £1,443,000), a net gain of £2,215,000 (2011 – net gain of £822,000) was included in the investment holding gains at the previous year end.

	2012 £'000	2011 £'000
Net gains/(losses) on investments designated at fair value through profit or loss on initial recognition		
Gains on sales	2,015	1,443
Changes in investment holding gains	(2,271)	11,352
	(256)	**12,795**

9 Debtors

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Income accrued (net of withholding tax) and prepayments	168	96
Sales for subsequent settlement	10	–
Other debtors	4	28
	182	**124**

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

10 Creditors – Amounts falling due within one year

	2012 £'000	2011 £'000
Other creditors and accruals	230	273
Bank loans (see note 11)	–	8,763
	230	**9,036**

Included in creditors is £137,000 (2011 – £139,000) 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

	2012 £'000	2011 £'000
Bank loans	**9,557**	**–**

Borrowing facilities

During the year, the Company refinanced its borrowings with The Royal Bank of Scotland plc. The 7 year ¥1,150 million loan matured on 10 August 2011 and was replaced by a 3 year ¥1,150 million loan at 2.24% maturing on 8 August 2014.

The following fixed rate term loans have been arranged. The drawings were as follows:

At 31 January 2012
The Royal Bank of Scotland plc – 3 year ¥1,150 million loan at 2.24% maturing 8 August 2014

At 31 January 2011
The Royal Bank of Scotland plc – 7 year ¥1,150 million loan at 2.025% maturing 10 August 2011

The covenants relating to the Royal Bank of Scotland plc loan are as follows:

- Total borrowings shall not exceed 35% of the Company's net asset value; and
- The Company's minimum net asset value shall be £20 million.

There were no breaches in loan covenants during the year.

No security has been provided in respect of the bank loans outstanding at 31 January 2011 or 2012.

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

12 Called up Share Capital

	2012 Number	2012 £'000	2011 Number	2011 £'000
Allotted, called up and fully paid ordinary shares of 10p each	**31,100,497**	**3,110**	**31,100,497**	**3,110**

At 31 January 2012 the Company had authority to buy back 4,661,964 shares. No shares were bought back during the year. Share buy-backs are funded from the capital reserve.

13 Capital and Reserves

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
At 1 February 2011	3,110	7,674	21,521	27,891	(4,530)	**55,666**
Net gain on disposal of investments	–	–	–	2,015	–	**2,015**
Changes in investment holding gains	–	–	–	(2,271)	–	**(2,271)**
Exchange differences on bank loans	–	–	–	(794)	–	**(794)**
Exchange differences on settlement of investment transactions	–	–	–	16	–	**16**
Other exchange differences	–	–	–	75	–	**75**
Net revenue return for the year	–	–	–	–	98	**98**
At 31 January 2012	**3,110**	**7,674**	**21,521**	**26,932**	**(4,432)**	**54,805**

The capital reserve includes investment holding gains of £12,621,000 (2011 – gains of £14,892,000) as disclosed in note 8.

14 Net Asset Value per Ordinary Share

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

	2012	2011	2012 £'000	2011 £'000
Ordinary shares	**176.2p**	**179.0p**	**54,805**	**55,666**

Net asset value per ordinary share is based on the net assets as shown above and on 31,100,497 (2011 – 31,100,497) ordinary shares, being the number of ordinary shares in issue at the year end.

Deducting borrowings at fair value would have the effect of reducing the net asset value per ordinary share from 176.2p to 176.0p. Taking the market price of the ordinary shares at 31 January 2012 of 167.3p, this would have given a discount to net asset value of 4.9% as against 5.1% on the basis of deducting borrowings at par. At 31 January 2011 deducting borrowings at fair value had no effect on the net asset value per ordinary share.

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

	2012 £'000	2011 £'000
Net return before finance costs and taxation	(558)	12,354
Losses/(gains) on investments	256	(12,795)
Currency losses	703	812
(Increase)/decrease in accrued income	(67)	68
Decrease/(increase) in other debtors	14	(17)
(Decrease)/increase in creditors	(6)	18
Net cash inflow from operating activities	**342**	**440**

16 Analysis of Change in Net Debt

	At 1 February 2011 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	**At 31 January 2012 £'000**
Cash and short term deposits	1,333	304	–	75	**1,712**
Loans due within one year	(8,763)	–	9,174	(411)	**–**
Loans due after one year	–	–	(9,174)	(383)	**(9,557)**
	(7,430)	**304**	**–**	**(719)**	**(7,845)**

17 Contingent Liabilities, Guarantees and Financial Commitments

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

18 Related Party Transactions

The Directors' fees for the year are detailed in the Directors' Remuneration Report on page 25. 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 other than as disclosed in note 3. The details of the management fee are set out in note 3, and the management fee due to Baillie Gifford as at 31 January 2012 is disclosed in note 10.

19 Financial Instruments and Risk Management

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

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

The Company may enter into derivative transactions as explained in the Investment Policy on page 18. 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 period.

19 Financial Instruments and Risk Management (continued)

Market Risk

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

(i) Currency Risk

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

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

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

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

At 31 January 2012	Investments £'000	Cash and deposits £'000	Bank loans £'000	Other debtors and creditors # £'000	**Net exposure £'000**
Yen	62,698	1,652	(9,557)	116	**54,909**
Total exposure to currency risk	62,698	1,652	(9,557)	116	**54,909**
Sterling	–	60	–	(164)	**(104)**
	62,698	**1,712**	**(9,557)**	**(48)**	**54,805**

#Includes net non-monetary assets of £10,000.

At 31 January 2011	Investments £'000	Cash and deposits £'000	Bank loans £'000	Other debtors and creditors # £'000	**Net exposure £'000**
Yen	63,245	1,304	(8,763)	7	**55,793**
Total exposure to currency risk	63,245	1,304	(8,763)	7	**55,793**
Sterling	–	29	–	(156)	**(127)**
	63,245	**1,333**	**(8,763)**	**(149)**	**55,666**

#Includes net non-monetary assets of £19,000.

Currency Risk Sensitivity

At 31 January 2012, 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 £5,491,000 (2011 – £5,579,000). In percentage terms, total net assets would have decreased by 10% (2011 – 10.0%), and net return on ordinary activities after taxation would have decreased by 637.8% (2011 – 46.1%). A 10% weakening of sterling against the yen, with all other variables held constant, would have had an equal 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 2012 is shown overleaf. The main change to the interest rate risk profile during the year was the refinancing of the ¥1,150 million loan facility with The Royal Bank of Scotland plc.

19 Financial Instruments and Risk Management (continued)

Financial Assets

	2012 Fair value £'000	2012 Weighted average interest rate	2011 Fair value £'000	2011 Weighted average interest rate
Cash:				
Yen	1,652	nil	1,304	nil
Sterling	60	0.01%	29	0.01%
	1,712		**1,333**	

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

Financial Liabilities

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

	2012 Book value £'000	2012 Weighted average interest rate	2012 Weighted average period until maturity	2011 Book value £'000	2011 Weighted average interest rate	2011 Weighted average period until maturity
Bank Loans:						
Yen denominated – fixed rate	**9,557**	**2.2%**	**30 months**	**8,763**	**2.0%**	**6 months**

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

(iii) Other Price Risk

Changes in market prices other than those arising from interest rate risk or currency risk may also affect the value of the Company's net assets. The Company's exposure to changes in market prices relates to the fixed asset investments as disclosed in note 8.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Managers. The Board meets regularly and at each meeting reviews investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and investment policies. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore performance may well diverge from the comparative index.

Other Price Risk Sensitivity

A full list of the Company's investments is shown on pages 16 to 17. In addition, a list of the 20 largest holdings together with various analyses of the portfolio by industrial sector and exchange listing are shown on pages 11 and 12.

114.4% of the Company's net assets are invested in Japanese quoted equities (2011 – 113.6%). A 10% increase in quoted equity valuations at 31 January 2012 would have increased total net assets and net return on ordinary activities after taxation by £6,270,000 (2011 – £6,325,000). 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 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.

The Board provides guidance to the Investment Managers as to the maximum exposure to any one holding (see Investment Policy on page 18).

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

	2012 £'000	2011 £'000
In less than one year	–	8,763
In more than two years, but not more than five years	9,557	–
	9,557	**8,763**

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

19 Financial Instruments and Risk Management (continued)

Credit Risk

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

- The Company's listed investments are held on its behalf by Mizuho Corporate Bank Ltd and the Bank of New York Mellon as the Company's custodians. Bankruptcy or insolvency of the custodians may cause the Company's rights with respect to securities held by the custodian to be delayed. The Investment Managers monitor the Company's risk by reviewing the custodians' 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 2012 and 2011, all cash deposits were held with the custodian banks. The credit risk of the custodians 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:

	2012 £'000	2011 £'000
Cash and deposits	1,712	1,333
Debtors	172	105
	1,884	**1,438**

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.

	2012 Book value £'000	2012 Fair * value £'000	2011 Book value £'000	2011 Fair * value £'000
Fixed rate yen bank loans	**9,557**	**9,618**	**8,763**	**8,763**

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

Gains and Losses on Hedges

At 31 January 2012 and 2011 there were no unrecognised gains/losses on hedges.

Capital Management

The Company does not have any externally imposed capital requirements other than the loan covenants detailed in note 11 on page 39. The capital of the Company is the ordinary share capital as detailed in note 12. It is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on page 18, and shares may be repurchased or issued as explained on page 24.

Fair Value of Financial Instruments

Fair values are measured using the following fair value hierarchy:

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

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

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

The valuation techniques used by the Company are explained in the accounting policies on page 35.

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

The Annual General Meeting of the Company will be held at the offices of Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, on Friday, 4 May 2012 at 12.30pm.

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

Baillie Gifford may record your call.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the twenty seventh 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 4 May 2012 at 12.30pm for the following purposes:

Ordinary Business

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

1. To receive and adopt the Financial Statements of the Company for the year ended 31 January 2012 with the Reports of the Directors and of the Independent Auditors thereon.
2. To approve the Directors' Remuneration Report for the year ended 31 January 2012.
3. To re-elect Mr BM Rose as a Director.
4. To re-elect Mr IA McLaren as a Director.
5. To elect Mrs MR Somerset Webb as a Director.
6. To reappoint PricewaterhouseCoopers LLP as Independent Auditors of the Company.
7. To authorise the Directors to determine the remuneration of the Independent Auditors of the Company.
8. That, in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date hereof, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ('Securities') provided that such authority shall be limited to the allotment of shares and the grant of rights in respect of shares with an aggregate nominal value of up to £589,950 (representing 18.97% of the Company's total issued share capital as at 19 March 2012), such authority to expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, unless previously revoked, varied or extended by the Company in a general meeting, save that the Company may at any time prior to the expiry of this authority make an offer or enter into an agreement which would or might require Securities to be allotted or granted after the expiry of such authority and the Directors shall be entitled to allot or grant Securities in pursuance of such an offer or agreement as if such authority had not expired.

To consider and, if thought fit, to pass resolutions 9 and 10 as Special Resolutions:

9. That, subject to the passing of Resolution 8 above, and in substitution for any existing power but without prejudice to the exercise of any such power prior to the date hereof, the Directors of the Company be and they are hereby generally empowered, pursuant to Section 570 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in Section 560 of the Act), including the grant of rights to subscribe for, or to convert securities into ordinary shares held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority given by Resolution 8 above as if Section 561(1) of the Act did not apply to any such allotment of equity securities, 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 £155,502 being approximately 5% of the nominal value of the issued share capital of the Company, as at 19 March 2012.
10. That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of fully paid ordinary shares of 10 pence each in the capital of the Company ('ordinary shares') (either for retention as treasury shares for future reissue, resale, transfer or cancellation), provided that:
   (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 4,661,964 being approximately 14.99% of the issued ordinary share capital of the Company as at the date of the passing of this Resolution;
   (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 10 pence;

(c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:
   (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
   (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and

(d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting to be held in respect of the year ending 31 January 2013, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the Board
Baillie Gifford & Co
Managers and Secretaries
29 March 2012

Baillie Gifford & Co

Notes

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the circular and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at the Registrars of the Company at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or **www.investorcentre.co.uk/eproxy** no later than 48 hours (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and/or by logging on to the website **www.euroclear.com/CREST**. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's registrar (ID 3RA50) no later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
5. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The return of a completed proxy form or other instrument of proxy will not prevent you attending the AGM and voting in person if you wish.
8. Shareholders participating in the Baillie Gifford Investment Trust Share Plan, Children's Savings Plan or the Baillie Gifford Investment Trust ISA who wish to vote and/or attend the meeting must complete and return the enclosed reply-paid Form of Direction.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and Section 311 of the Companies Act 2006 the Company specifies that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company no later than 48 hours (excluding non-working days) prior to the commencement of the AGM or any adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
10. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 and 2 above does not apply to Nominated Persons. The rights described in those Notes can only be exercised by shareholders of the Company.
12. The members of the Company may require the Company to publish, on its website, (without payment) a statement (which is also passed to the auditors) setting out any matter relating to the audit of the Company's accounts, including the auditors' report and the conduct of the audit. The Company will be required to do so once it has received such requests from either members representing at least 5% of the total voting rights of the Company or at least 100 members who have a relevant right to vote and hold shares in the Company on which there has been paid up an average sum per member of at least £100. Such requests must be made in writing and must state your full name and address and be sent to the Company at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN.
13. Information regarding the Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available from the Company's page of the Managers' website at **www.shinnippon.co.uk**.
14. Members have the right to ask questions at the meeting in accordance with Section 319A of the Companies Act 2006.
15. As at 19 March 2012 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consisted of 31,100,497 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 19 March 2012 were 31,100,497 votes.
16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
17. No Director has a contract of service with the Company.

Further Shareholder Information

Baillie Gifford Shin Nippon is an investment trust. Investment trusts offer investors the following:

- participation in a diversified portfolio of shares;
- constant supervision by experienced professional managers; and
- the Company is free from capital gains tax on capital profits realised within its portfolio although investors are still liable for capital gains tax on profits when selling their investment.

How to Invest

The Company's shares are traded on the London Stock Exchange. They can be bought by placing an order with a stockbroker, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles (see page 47 for details). If you are interested in investing directly in Baillie Gifford Shin Nippon, you can do so online. There are a number of companies offering real time online dealing services – find out more by visiting the investment trust pages at **www.bailliegifford.com**.

Sources of Further Information on the Company

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

Key Dates

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

Capital Gains Tax

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

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

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

The attributable costs are:

	Apportioned cost	First day of dealing value
Cost of each ordinary share	164.81p	178.00p
Cost of each warrant 2005	76.85p	83.0p

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

Share Register Enquiries

Computershare Investor Services PLC maintains the share register on behalf of the Company. In the event of queries regarding shares registered in your own name, please contact the Registrars on 0870 889 3223.

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

- hear the latest share price;
- confirm your current share holding balance; and
- order Change of Address and Stock Transfer forms.

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

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 the last dividend voucher or 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 0870 889 3223.

CREST Proxy Voting

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

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

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

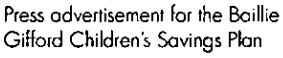
Analysis of Shareholders at 31 January

	2012 Number of shares held	2012 %	2011 Number of shares held	2011 %
Institutions	11,120,725	35.8	12,304,098	39.5
Intermediaries	14,352,664	46.2	13,500,839	43.4
Individuals*	3,551,483	11.4	2,985,157	9.6
Baillie Gifford Share Plan/ISA	1,937,679	6.2	2,041,914	6.6
Marketmakers	137,946	0.4	268,489	0.9
	31,100,497	**100.0**	**31,100,497**	**100.0**

*Includes all holdings under 5,000 shares.

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

The Share Plan and ISA brochure available at **www.shinnippon.co.uk**



Press advertisement for the Baillie Gifford Children's Savings Plan

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

The Baillie Gifford Investment Trust Share Plan

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

The Baillie Gifford Investment Trust ISA

- Tax-efficient investment
- No set-up charge
- Flat rate annual management charge currently of £32.50 + VAT
- Lump sum investment from £2,000 currently up to a maximum of £10,680 each year
- Save monthly from £100
- A withdrawal charge of just £22

ISA Transfers

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

The Baillie Gifford Children's Savings Plan

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

Online Management Service

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

- get current valuations;
- make lump sum investments;
- switch between investment trusts (except where there is more than one holder);
- set up a direct debit to make regular investments; and
- update certain personal details.

*Please note that a bare trust cannot be opened via OMS. A bare trust application form must be completed.

Further information

If you would like more information on any of the plans described, please contact the Baillie Gifford Client Relations Team. (See contact details on page 49).

Risks

Past performance is not a guide to future performance.

Baillie Gifford Shin Nippon is listed on the stock market. As a result the value of the shares can fall as well as rise and you may not get back the amount you invested. You should view your investment as long term.

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

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

Baillie Gifford Shin Nippon can make use of derivatives. The use of derivatives may impact on its performance.

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 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.

Single country trusts are generally considered higher risk than those which invest in a number of different countries, as they are exposed to changes in a single market and currency.

Risks (continued)

As the aim of the Company is to achieve capital growth, you should not expect a significant or steady, annual income from the shares.

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

The favourable tax treatment of ISAs may change.

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

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

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

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

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

Glossary of Terms

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.

Total Assets

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

Discount /Premium

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

Total Expense Ratio

The total expenses (excluding interest) incurred by the Company as a percentage of the average shareholders' funds.

Gearing

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets. A gearing ratio of 100 means there is no gearing.

Actual gearing represents the Company's net gearing after offsetting its cash balances and fixed interest securities (ex convertibles) against its borrowings.

Potential gearing is the Company's gross gearing and represents the borrowings currently available for use by the Company.

Communicating with Shareholders

'Trust' magazine

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

Trust Magazine

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

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

Guides to Investment Trusts

Baillie Gifford has produced a number of educational guides on investment trusts. These are designed to explain how Investment Trusts work and to explain the various ways you can invest in them. If you would like copies of any of these guides, please contact the Baillie Gifford Client Relations Team.

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 **http://www.shinnippon.co.uk**.

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

Suggestions and Questions

Any suggestions on how communications with shareholders can be improved are welcomed, so please contact the Baillie Gifford Client Relations Team and give them your suggestions. They will also be very happy to answer questions that you may have, either about Baillie Gifford Shin Nippon or the plans described on page 47.

Literature in Alternative Formats

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

Client Relations Team Contact Details

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

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

Tel: 0800 027 0133
Your call may be recorded.

E-mail: trustenquiries@bailliegifford.com
Website: **http://www.bailliegifford.com**

Fax: 0131 275 3955

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 these plans for you, please ask an authorised intermediary.

Directors

Chairman:
BM Rose

PF Charig
IA McLaren
MR Somerset Webb
SCN Somerville

Registrar

Computershare
Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Tel: 0870 889 3223

Brokers

Matrix Corporate Capital LLP
One Vine Street
London
W1J 0AH

Company registration No. SC93345

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
Erskine House
PO Box 90
68–73 Queen Street
Edinburgh EH2 4NH

Managers, Secretaries and Registered Office

Baillie Gifford & Co
Calton Square
1 Greenside Row
Edinburgh
EH1 3AN
Tel: 0131 275 2000
Website: www.bailliegifford.com