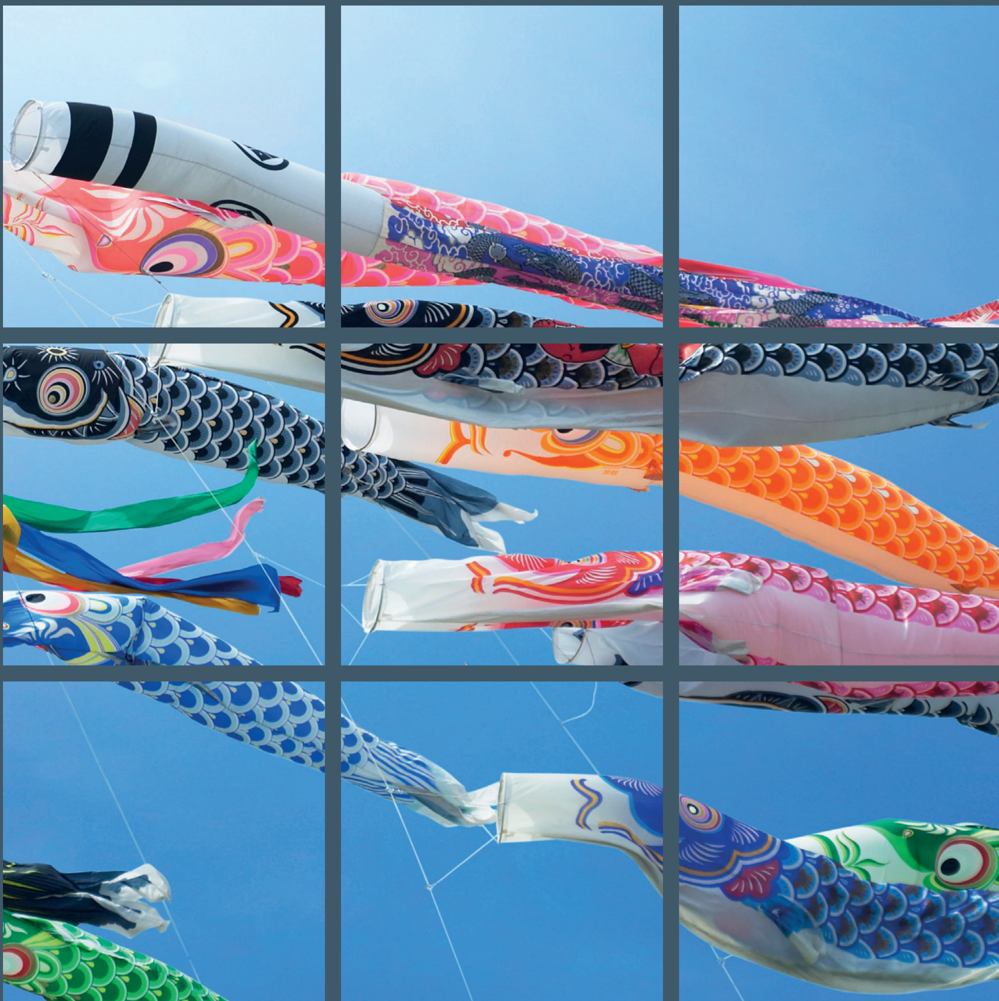
BAILLIE GIFFORD SHIN NIPPON PLC

Investing in new opportunities in Japan



Interim Financial Report
31 July 2020

BAILLIE GIFFORD

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.

Comparative Index

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

Principal Risks and Uncertainties

The principal risks facing the Company are financial risk, investment strategy risk, discount risk, regulatory risk, custody and depositary risk, small company risk, operational risk, leverage risk and political risk. An explanation of these risks and how they are managed is set out on page 8 of the Company's Annual Report and Financial Statements for the year to 31 January 2020 which is available on the Company's website: **www.shinnippon.co.uk**.

The principal risks and uncertainties have not changed since the date of that report with the exception of the ongoing situation regarding Covid-19. The Board and Managers continue to review the portfolio for the potential impact of the pandemic. The business continuity arrangements of the Managers and other third party service providers have proven robust with operations continuing largely as normal.

Responsibility Statement

We confirm that to the best of our knowledge:

a) the condensed set of Financial Statements has been prepared in accordance with FRS 104 'Interim Financial Reporting';

b) the Interim Management Report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months, their impact on the Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the year); and

c) the Interim Financial Report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

On behalf of the Board
MN Donaldson
Chairman
23 September 2020

Summary of Unaudited Results

	31 July 2020	31 January 2020 (audited)	% change
Shareholders' funds	£509.8m	£483.7m	
Net asset value per ordinary share (after deducting borrowings at fair value)*	182.2p	172.8p	5.4%
Net asset value per ordinary share (after deducting borrowings at book value)*	182.4p	173.0p	5.4%
Share price	183.6p	170.4p	7.7%
Comparative index†			(8.8%)
Premium/(discount) (borrowings at fair value)*	0.8%	(1.4%)	
Premium/(discount) (borrowings at book value)*	0.7%	(1.5%)	
Active share*	95%	94%	

	Six months to 31 July 2020		Year to 31 January 2020	
Period's high and low	**High**	**Low**	**High**	**Low**
Net asset value per ordinary share (after deducting borrowings at fair value)*	200.7p	121.4p	190.1p	157.9p
Share price	194.8p	109.6p	193.4p	169.0p
Premium/(discount) (borrowings at fair value)*	1.2%	(17.0%)	9.3%	(4.6%)

Longer Term Performance at 31 July 2020

	3 years	5 years	10 years
Net asset value per ordinary share#	36.1%	126.6%	495.4%
Share price	29.8%	120.4%	586.4%
Comparative index†	0.2%	51.9%	149.7%

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 18.

Notes

* See Glossary of Terms and Alternative Performance Measures on page 16.

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

After deducting borrowings at fair value. See Glossary of Terms and Alternative Performance Measures on page 16.

Past performance is not a guide to future performance.

Interim Management Report

The Covid-19 pandemic has caused significant disruption to businesses globally. Its impact continues to reverberate across global stock markets and Japan is no exception. Whilst markets have recovered sharply from their lows in March, investor sentiment remains fragile. The outlook for a return to normality is uncertain, given the continuing global spread of the virus.

In these challenging circumstances, for the six months to 31 July 2020, the MSCI Japan Small Cap index fell by 8.8% compared to a 5.4% increase in Shin Nippon's net asset value per share (after deducting borrowings at fair value). Over three and five years, which we believe is a fairer way of judging long-term investment performance, the comparative index has risen by 0.2% and 51.9% respectively, while the Company's net asset value per share has increased by 36.1% and 126.6%.

In an attempt to limit the spread of Covid-19, Japan has had its share of lockdowns and restrictions on a range of activities like travel, offline retail and manufacturing. Unsurprisingly, companies operating in these sectors were among the hardest hit. However, adversity also brings opportunities. The pandemic has laid bare the frailties of traditional Japanese companies that remain ill-equipped to respond to a crisis like this. In a developed economy like Japan, it is staggering to note that a large number of companies do not have the required IT infrastructure to enable their employees to work from home. This is because Japanese companies, in general, have under-invested in IT over the years as they see this as a cost of doing business rather than a potential source of competitive advantage. The current crisis is forcing such companies to embrace new technologies and services in order to resume their operations. This digital transformation of corporate Japan is proving to be a fantastic growth opportunity for numerous young, dynamic and fast-growing smaller companies, especially those operating in the online services and software areas.

Online legal portal Bengo4.com was the top contributor to performance during the first half of the year. Its core business of matching lawyers with people seeking legal advice continues to grow at a steady pace. Its cloud-based digital contracts business, Cloudsign, is seeing rapid growth thanks to companies that are migrating away from paper-based contracts. As remote working takes hold in Japan, it is becoming untenable for businesses to continue using contracts in their traditional form. This includes the use of *hanko*, the personal stamp used by employees to make documents official. Cloudsign offers the ability to prepare and sign documents digitally. It also allows users to maintain a historic digital trail of documents and simplifies the task of document storage and retrieval. The Japanese government is using the current pandemic as an opportunity to encourage companies to adopt digital contracts and is in the process of legalising their use in a range of sectors. As a first-mover and a leading player, Bengo4.com is well placed to capitalise on this growth opportunity.

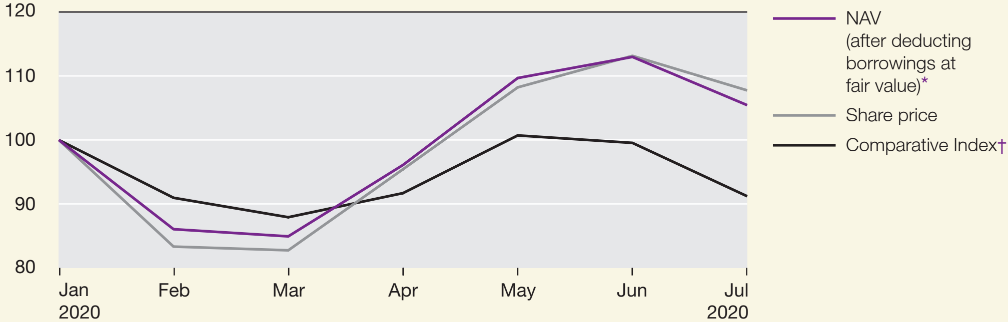
Longstanding holding and Japan's leading online drug marketing platform M3 is another beneficiary of the pandemic. Due to worries about contracting the virus through face-to-face meetings, the traditional model of pharmaceutical sales staff visiting doctors to market drugs is no longer feasible. As a result, M3 is seeing a sharp rise in the number of pharma companies subscribing to its online platform to market multiple drugs. Telemedicine is another area that provides considerable growth opportunities for M3. The Japanese government is keen to expand the use of telemedicine to deliver medical advice to vulnerable people, especially in the current situation. Through its healthcare joint venture with LINE, Japan's largest mobile messaging service, M3 will begin offering remote health medical consultation and telemedicine services to users across Japan.

Japan's leading online food delivery company Demae-Can was another strong performer. It has rapidly expanded its geographical footprint and now has nationwide delivery coverage. This stands in stark contrast to its competitors like Uber Eats that operate mostly in the metros. Numerous restaurants and food chains across Japan are struggling as Covid-19 has resulted in a collapse in customer footfall. Demae-Can is proving to be a blessing for such businesses. It is seeing explosive growth in the number of delivery orders, thanks to a sharp rise in the number of people ordering food online and restaurants signing up for its delivery services. Japan's largest trade receivables insurance provider eGuarantee is also benefitting in the prevailing climate. Covid-19 has understandably caused a lot of stress at numerous businesses, with their very survival now being called into question. This is resulting in a flood of enquiries for eGuarantee's insurance services as businesses seek to protect themselves against potential defaults by their customers.

Past performance is not a guide to future performance.

Six Months Performance

(figures plotted on a monthly basis and rebased to 100 at 31 January 2020)



* See Glossary of Terms and Alternative Performance Measures on page 16.

†MSCI Japan Small Cap Index (total return and in sterling terms).

Source: Refinitiv/Baillie Gifford and relevant underlying index providers. See disclaimer on page 18.

As highlighted earlier, physical retail, travel and manufacturing related stocks were among the weakest performers due to the varying levels of disruption caused by Covid-19. Cosmetics retailer iStyle was among the largest negative contributors to performance. The company has had to weather a series of setbacks. A meaningful part of its revenues come from its small network of physical stores across Japan where it stocks products rated as being the most popular by its online community of around 15 million users. Due to Covid-19, it has had to shut down all of its stores, thereby resulting in a significant hit to revenues. The company also generates a meaningful proportion of its revenues through its Asian e-commerce platform, selling mainly to Chinese customers. A change in regulation imposed by the Chinese authorities meant that iStyle's online operations in the Chinese market were severely hampered.

Japan's leading travel operator H.I.S. was another weak performer, thanks to a collapse in both inbound and outbound travel. Conditions for travel related companies in general remain tough and there is little visibility on when travel might return to normal levels. Online food ordering platform Infomart also performed poorly. With falling customer footfall amidst shutdowns, restaurants across Japan are reining in their spending on food supplies. This has had a knock-on effect on Infomart's business as commissions from restaurants using its online food ordering service have fallen sharply.

Given its sizeable exposure to manufacturing related clients, staffing company Outsourcing is seeing a sharp drop in demand for its services. Many of its key clients are running their factories well below capacity and have also frozen their hiring plans. Whilst Outsourcing's domestic business has borne the brunt of this, its overseas staffing businesses are performing relatively well. A lot of these are focussed on IT recruitment where end-demand remains strong. Specialist plastic car parts manufacturer Daikyonishikawa also performed poorly, largely mirroring the fortunes of its main customer Mazda. Near-term challenges notwithstanding, we continue to believe that Daikyonishikawa remains well positioned to benefit from the structural trend of using more plastic parts in cars in order to reduce weight and improve efficiency. The company is also financially sound as it has a strong balance sheet with a large net cash position.

Over the six months, we purchased five new holdings and sold one. Among the new purchases was GA Technologies, a provider of cloud-based software products for the real estate industry. The real estate industry in Japan remains traditional, with little by way of automation or digitalisation. Through its software products, GA Technologies facilitates a number of services like remote viewing, automated preparation of building plans, online mortgage application and approval, and smartphone-based property management services, to name a few. It aims to provide a seamless and transparent experience for property buyers and sellers. It is run by its young and dynamic founder who owns a large stake in the business. We also participated in the IPO of Modalis Therapeutics, an early-stage biotech that has developed a new and promising gene editing technique that stimulates the human body to self-correct genetic abnormalities.

Gojo was another new addition to the portfolio and is our second unlisted investment. It is a holding company with majority stakes in a number of exciting and fast-growing businesses based in India, Sri Lanka, Cambodia and Myanmar. These subsidiaries are engaged in businesses related to financial inclusion, with a focus on microfinance, lending for affordable housing and SME financing. The growth opportunity for these businesses is sizeable as the vast majority of the population in these markets remains without access to formal channels of banking and finance. We sold our entire holding in Takemoto Yohki, a manufacturer of PET bottles for cosmetics, as the company is struggling in the face of a severe deterioration in its end markets due to Covid-19. Some of its customers have been moving production of PET bottles in-house, having previously outsourced this to the likes of Takemoto Yohki. This reversal seems structural to us and hence, a long-term negative for Takemoto Yohki.

It is easy to be gloomy in the current climate. However, we think these are exciting times for the kinds of high growth and dynamic companies that Shin Nippon invests in. Although the pandemic has caused wide-spread disruption to businesses and societies globally, it is also serving to accelerate much needed and long overdue changes in the way businesses operate. This is true perhaps more so in Japan than anywhere else given its corporate culture that is steeped in outdated business practices. Japanese companies are waking up to the fact that they will have to reform or perish as their existing business models are unlikely to be fit for purpose in the long-run. This is creating numerous growth opportunities for smaller businesses in Japan that are seeking to solve precisely the kind of structural issues facing traditional Japanese companies. We remain excited by the prospect of investing in these ‘problem solvers’!

The principal risks and uncertainties facing the Company are set out on the inside front cover of this report.

Twenty Largest Equity Holdings at 31 July 2020

Name	Business	Value £'000	% of total assets	Absolute performance * %
Bengo4.com	Online legal consultation	27,387	4.9	106.8
Demae-Can	Online meal delivery service	17,911	3.2	60.5
GMO Payment Gateway	Online payment processing	17,114	3.0	59.4
Cosmos Pharmaceuticals	Drugstore chain	16,994	3.0	65.9
MonotaRO	Online business supplies	16,595	2.9	73.6
Nihon M&A Center	M&A advisory services	15,990	2.8	65.8
Raksul	Internet based services	15,701	2.8	(13.4)
M3	Online medical services	15,449	2.7	71.2
eGuarantee	Guarantees trade receivables	14,369	2.5	84.7
Shoei	Manufactures motor cycle helmets	12,121	2.1	14.6
Kitanotatsujun	Online retailer	11,566	2.1	(22.9)
Infomart	Internet platform for restaurant supplies	11,029	2.0	(22.9)
Locondo	E-commerce services provider	10,318	1.8	170.8
Katitas	Real estate services	10,159	1.8	11.7
Sho-Bond	Infrastructure reconstruction	10,012	1.8	4.2
JEOL	Manufacturer of scientific equipment	9,896	1.8	(16.0)
Asahi Intecc	Specialist medical equipment	8,714	1.5	(0.4)
Cybozu	Develops and markets internet and intranet application software for businesses	8,708	1.5	66.8
Outsourcing	Employment placement services	8,612	1.5	(40.4)
Seria	Discount retailer	8,514	1.5	45.4
		267,159	**47.2**	

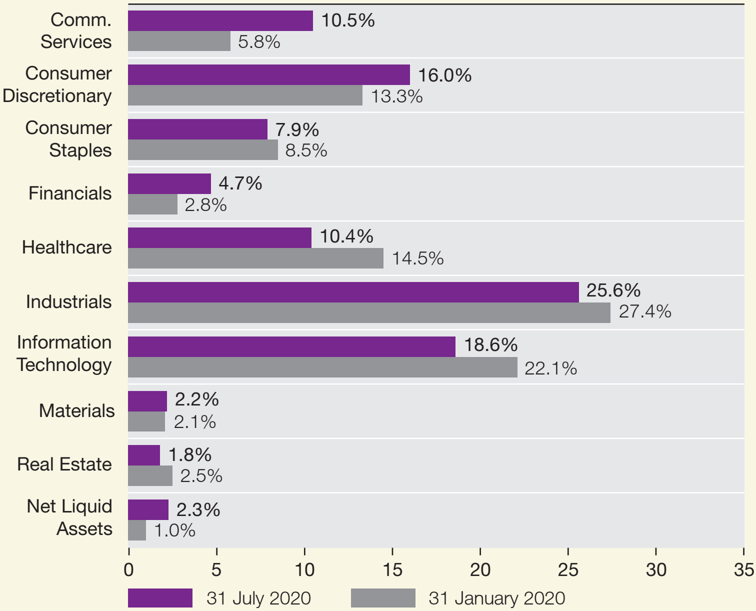
* Absolute performance is in sterling terms and has been calculated on a total return basis over the period 1 February 2020 to 31 July 2020.

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

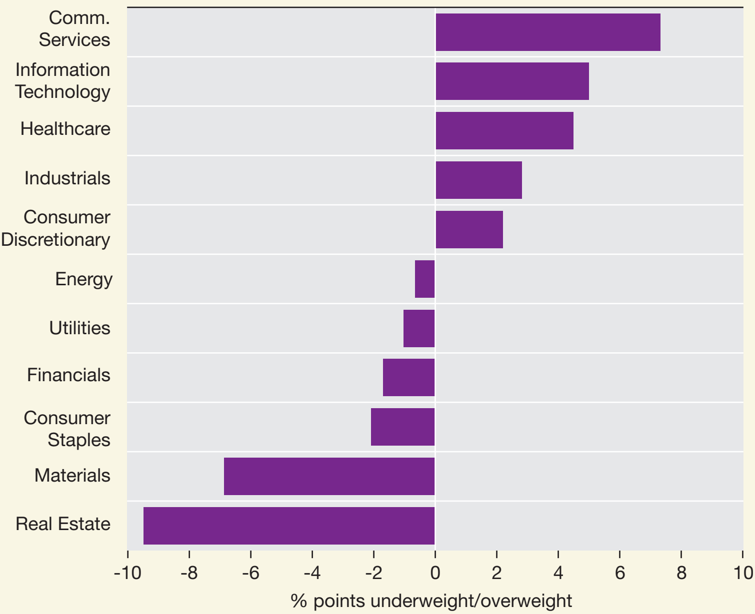
Past performance is not a guide to future performance.

Distribution and Relative Weightings

Distribution of Total Assets



Portfolio Weightings relative to Comparative Index* at 31 July 2020



* MSCI Japan Small Cap Index (total return and in sterling terms).
See disclaimer on page 18.

Income Statement (unaudited)

	For the six months ended 31 July 2020			For the six months ended 31 July 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains on investments (note 3)	–	27,068	**27,068**	–	70,278	**70,278**
Currency losses	–	(1,008)	**(1,008)**	–	(3,736)	**(3,736)**
Income from investments	2,655	–	**2,655**	2,762	–	**2,762**
Investment management fee (note 4)	(1,490)	–	**(1,490)**	(1,511)	–	**(1,511)**
Other administrative expenses	(261)	–	**(261)**	(286)	–	**(286)**
Net return before finance costs and taxation	904	26,060	**26,964**	965	66,542	**67,507**
Finance costs of borrowings	(572)	–	**(572)**	(530)	–	**(530)**
Net return on ordinary activities before taxation	332	26,060	**26,392**	435	66,542	**66,977**
Tax on ordinary activities (note 5)	(266)	–	**(266)**	(276)	–	**(276)**
Net return on ordinary activities after taxation	**66**	**26,060**	**26,126**	**159**	**66,542**	**66,701**
Net return per ordinary share (note 7)	**0.02p**	**9.32p**	**9.34p**	**0.06p**	**24.18p**	**24.24p**

The accompanying notes on pages 11 to 13 are an integral part of the Financial Statements.

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

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

A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement.

Balance Sheet (unaudited)

	At 31 July 2020 £'000	At 31 January 2020 (audited) £'000
Fixed asset investments		
Investments held at fair value through profit or loss (note 8)	550,426	530,633
Current assets		
Debtors	869	3,141
Cash and cash equivalents	14,057	5,736
	14,926	8,877
Creditors		
Amounts falling due within one year (note 9)	(40,389)	(41,112)
Net current liabilities	(25,463)	(32,235)
Total assets less current liabilities	524,963	498,398
Creditors		
Amounts falling due after more than one year (note 9)	(15,121)	(14,682)
Total net assets	**509,842**	**483,716**
Capital and reserves		
Share capital	5,591	5,591
Share premium account	174,208	174,208
Capital redemption reserve	21,521	21,521
Capital reserve	313,043	286,983
Revenue reserve	(4,521)	(4,587)
Shareholders' funds	**509,842**	**483,716**
Net asset value per ordinary share (after deducting borrowings at book value)	**182.4p**	**173.0p**
Ordinary shares in issue (note 11)	**279,577,485**	**279,577,485**

Statement of Changes in Equity (unaudited)

For the six months ended 31 July 2020

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2020	5,591	174,208	21,521	286,983	(4,587)	**483,716**
Net return on ordinary activities after taxation	–	–	–	26,060	66	**26,126**
Shareholders' funds at 31 July 2020	**5,591**	**174,208**	**21,521**	**313,043**	**(4,521)**	**509,842**

For the six months ended 31 July 2019

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2019	5,469	163,191	21,521	249,351	(5,377)	**434,155**
Ordinary shares issued (note 11)	61	5,420	–	–	–	**5,481**
Net return on ordinary activities after taxation	–	–	–	66,542	159	**66,701**
Shareholders' funds at 31 July 2019	**5,530**	**168,611**	**21,521**	**315,893**	**(5,218)**	**506,337**

* The Capital reserve includes investment holding gains of £155,794,000 (31 July 2019 – gains of £204,029,000).

Condensed Cash Flow Statement (unaudited)

	Six months to 31 July 2020 £'000	Six months to 31 July 2019 £'000
Cash flows from operating activities		
Net return on ordinary activities before taxation	26,392	66,977
Net gains on investments	(27,068)	(70,278)
Currency losses	1,008	3,736
Finance costs of borrowings	572	530
Overseas withholding tax	(344)	(335)
Changes in debtors and creditors	820	676
Cash from operations	1,380	1,306
Interest paid	(553)	(502)
Net cash inflow from operating activities	827	804
Net cash inflow/(outflow) from investing activities	6,961	(7,320)
Ordinary shares issued	–	5,481
Net cash inflow from financing activities	–	5,481
Increase/(decrease) in cash and cash equivalents	7,788	(1,035)
Exchange movements	533	257
Cash and cash equivalents at start of period	5,736	5,750
Cash and cash equivalents at end of period*	**14,057**	**4,972**

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

Notes to the Condensed Financial Statements (unaudited)

1 The condensed Financial Statements for the six months to 31 July 2020 comprise the statements set out on pages 7 to 10 together with the related notes on pages 11 to 13. They have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the principles of the AIC's Statement of Recommended Practice issued in November 2014 and updated in October 2019 with consequential amendments and have not been audited or reviewed by the Auditor pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Financial Statements for the six months to 31 July 2020 have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Financial Statements at 31 January 2020.

Going Concern

The Directors have considered the nature of the Company's principal risks and uncertainties, as set out on the inside front cover, together with its current position, investment objective and policy, its assets and liabilities and projected income and expenditure. The Board has, in particular, considered the impact of heightened market volatility since the Covid-19 outbreak but does not believe the Company's going concern status is affected. Although net current liabilities are reported on the Balance Sheet, the Company's assets, which are primarily investments in quoted securities which are readily realisable (Level 1), exceed its liabilities significantly and could be sold to repay borrowings if required. All borrowings require the prior approval of the Board. Gearing levels and compliance with loan covenants are reviewed by the Board on a regular basis. The Company has continued to comply with the investment trust status requirements of section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) Regulations 2011. Accordingly, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing these Financial Statements and confirm that they are not aware of any material uncertainties which may affect the Company's ability to continue in operational existence for a period of at least twelve months from the date of approval of these Financial Statements.

2 The financial information contained within this Interim Financial Report does not constitute statutory accounts as defined in sections 434 to 436 of the Companies Act 2006. The financial information for the year ended 31 January 2020 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditor's Report on these accounts was not qualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under sections 498 (2) or (3) of the Companies Act 2006.

		Six months to 31 July 2020 £'000	Six months to 31 July 2019 £'000
3	**Net gains on investments**		
	Gains on sales of investments	22,148	16,296
	Movement in investment holding gains	4,920	53,982
		27,068	**70,278**

4 Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, has been appointed by the Company as its Alternative Investment Fund Manager (AIFM) and Company Secretary. The investment management function has been delegated to Baillie Gifford & Co. The management agreement can be terminated on six months' notice. The annual management fee is 0.75% on the first £50m of net assets, 0.65% on the next £200m of net assets and 0.55% on the remainder, calculated and payable quarterly.

Notes to the Condensed Financial Statements (unaudited)

5 The Company suffers overseas withholding tax on its equity income, currently at the rate of 10%.

6 No interim dividend will be declared.

	Six months to 31 July 2020 £'000	Six months to 31 July 2019 £'000
7 Net return per ordinary share		
Revenue return	66	159
Capital return	26,060	66,542
Total Return	**26,126**	**66,701**

Net return per ordinary share is based on the above totals of revenue and capital and on 279,577,485 (31 July 2019 – 275,146,822) ordinary shares, being the weighted average number of ordinary shares in issue during the period. There are no dilutive or potentially dilutive shares in issue.

8 Fair Value

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

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

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

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

The Company's investments are financial assets held at fair value through profit or loss. An analysis of the Company's financial asset investments based on the fair value hierarchy described above is shown below.

As at 31 July 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	539,496	–	–	**539,496**
Unlisted securities	–	–	10,930	**10,930**
Total financial asset investments	**539,496**	**–**	**10,930**	**550,426**

As at 31 January 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	527,373	–	–	**527,373**
Unlisted securities	–	–	3,260	**3,260**
Total financial asset investments	**527,373**	**–**	**3,260**	**530,633**

8 Fair Value (continued)

There have been no transfers between levels of the fair value hierarchy during the period. The fair value of listed investments is last traded price which is equivalent to the bid price on Japanese markets. Listed investments are categorised as Level 1 if they are valued using unadjusted quoted prices for identical instruments in an active market and as Level 2 if they do not meet all these criteria but are, nonetheless, valued using market data. Unlisted investments are valued at fair value by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Managers. The Managers' unlisted investment valuation policy applies methodologies consistent with the International Private Equity and Venture Capital Valuation guidelines ('IPEV'). These methodologies can be categorised as follows: (a) market approach (multiples, industry valuation benchmarks and available market prices); (b) income approach (discounted cash flows); and (c) replacement cost approach (net assets). The Company's holdings in unlisted investments are categorised as Level 3 as unobservable data is a significant input to their fair value measurements.

9 The amounts falling due within one year include bank loans of £38,522,000 (¥5.35 billion) outstanding under yen loan facilities repayable on 27 November 2020 (31 January 2020 – £34,403,000 (¥5.35 billion)).The amounts falling due after more than one year include bank loans of £15,121,000 (¥2.10 billion) outstanding under a yen loan facility repayable on 18 December 2024 (31 January 2020 – £14,682,000 (¥2.10 billion)).

10 The fair value of the bank loans at 31 July 2020 was £54,008,000 (31 January 2020 – £52,626,000).

11 The Company has the authority to issue shares/sell treasury shares at a premium to net asset value as well as to buy back shares at a discount to net asset value. During the period under review, no shares were issued (31 July 2019 – 3,050,000 shares raising net proceeds of £5,481,000). No shares were bought back during the period under review (31 July 2019 – nil).

12 Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sale proceeds, as appropriate. During the period, transaction costs on purchases amounted to £26,000 (31 July 2019 – £26,000) and transaction costs on sales amounted to £34,000 (31 July 2019 – £23,000).

13 Related Party Transactions

There have been no transactions with related parties during the first six months of the current financial year that have materially affected the financial position or the performance of the Company during that period and there have been no changes in the related party transactions described in the last Annual Report and Financial Statements that could have had such an effect on the Company during that period.

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

Further Shareholder Information

Shin Nippon's shares are traded on the London Stock Exchange. They can be bought through a stockbroker or by asking a professional adviser to do so.

Risk Warnings

Past performance is not a guide to future performance.

Baillie Gifford Shin Nippon is a listed UK company. The value of its shares and any income from those shares can fall as well as rise and investors may not get back the amount invested.

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

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 can make use of derivatives which may impact on its performance. Currently the Company does not make use of derivatives.

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.

Baillie Gifford Shin Nippon invests in Japan and exposure to a single market and currency may increase risk.

The Company's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

As the aim of Baillie Gifford Shin Nippon is to achieve capital growth, it is unlikely that the Company will provide a steady, or indeed any, income.

The Company is listed on the London Stock Exchange and as such complies with the requirements of the UK Listing Authority. It is not authorised or regulated by the Financial Conduct Authority.

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.

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.

The information and opinions expressed within this Interim Financial Report are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co Limited, the Managers and Secretaries, and does not in any way constitute investment advice.

Automated Exchange of Information

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

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

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

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

Glossary of Terms and Alternative Performance Measures (APM)

Total Assets

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

Net Asset Value

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

Net Asset Value (Borrowings at Book Value)

Borrowings are valued at adjusted net issue proceeds. The Company's yen denominated loans are valued at their sterling equivalent and adjusted for their arrangement fees. The value of the borrowings on this basis is set out in note 9 on page 13.

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

This is a widely reported measure across the investment trust industry. Borrowings are valued at an estimate of their market worth. The Company's yen denominated loans are fair valued with reference to a Japanese government bond of comparable yield and maturity. The value of the borrowings on this basis is set out in note 10 on page 13.

	31 July 2020	31 January 2020
Net Asset Value per ordinary share (borrowings at book value)	182.4p	173.0p
Shareholders' funds (borrowings at book value)	£509,842,000	£483,716,000
Add: book value of borrowings	£53,643,000	£52,085,000
Less: fair value of borrowings	(£54,008,000)	(£52,626,000)
Shareholders' funds (borrowings at fair value)	£509,477,000	£483,175,000
Shares in issue at period end	279,577,485	279,577,485
Net Asset Value per ordinary share (borrowings at fair value)	182.2p	172.8p

Net Liquid Assets

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

Discount/Premium (APM)

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

	31 July 2020 NAV (book)	31 July 2020 NAV (fair)	31 January 2020 NAV (book)	31 January 2020 NAV (fair)
Closing NAV per share	182.4p	182.2p	173.0p	172.8p
Closing share price	183.6p	183.6p	170.4p	170.4p
Premium/(discount)	**0.7%**	**0.8%**	**(1.5%)**	**(1.4%)**

Total Return (APM)

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

Ongoing Charges (APM)

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

Gearing (APM)

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on the shareholders' assets is called 'gearing'. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets. Gearing represents its cash borrowings at par less cash and cash equivalents expressed as a percentage of shareholders' funds. Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Leverage (APM)

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

Active Share (APM)

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

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