

BAILLIE GIFFORD SHIN NIPPON PLC

Investing in new
opportunities in Japan



Interim Financial Report
31 July 2018





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 pages 8 and 9 of the Company's Annual Report and Financial Statements for the year to 31 January 2018 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.

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 Rules 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 Rules 4.2.8R (disclosure of related party transactions and changes therein).

On behalf of the Board
MN Donaldson
Chairman
27 September 2018

Summary of Unaudited Results

	31 July 2018	31 January 2018* (audited)	% change
Shareholders' funds	£491.5m	£401.4m	
Net asset value per ordinary share (after deducting borrowings at fair value)†	189.2p	168.7p	12.2
Net asset value per ordinary share (after deducting borrowings at book value)†	189.6p	169.1p	12.1
Share price	203.8p	184.4p	10.5
Comparative index#			2.1
Premium (borrowings at fair value)†	7.7%	9.3%	
Active share†	92%	93%	

	Six months to 31 July 2018		Year to 31 January 2018*	
Period's high and low	High	Low	High	Low
Net asset value per ordinary share (after deducting borrowings at fair value)†	196.0p	160.3p	173.3p	115.0p
Share price	205.3p	172.4p	190.0p	119.6p
Premium/(discount) (borrowings at fair value)†	14.5%	0.5%	13.2%	(0.3%)

Longer Term Performance at 31 July 2018

	3 Years	5 Years	10 Years
Net asset value per ordinary share‡	135.3%	229.3%	642.0%
Share price	144.7%	244.8%	816.0%
Comparative index#	68.5%	104.1%	243.6%

Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers. See disclaimer on page 17.

Notes

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

† See Glossary of Terms on page 16.

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. Index data has been chain-linked from 1 February 2010 to form a single index.

‡ After deducting borrowings at fair value.

Interim Management Report

The Japanese market was weak during the first half of this year due to external macro and political factors. Investor concerns centred around US relations with its key trading partners and slowing global demand in sectors such as semiconductors and automobiles. Under these circumstances there was general weakness among cyclical stocks exposed to overseas demand. However, this shift in sentiment benefitted domestically focussed companies which saw strong share price performance during this period.

In the six months to 31 July 2018, Shin Nippon's net asset value per share (after deducting borrowings at fair value) rose by 12.2% compared to a 2.1% rise in the MSCI Japan Small Cap index. However, we believe longer term periods are more appropriate bases on which to judge the success of the investment approach. Over the past three and five years, the comparative index is up by 68.5% and 104.1% respectively while the Company's net asset value per share is up by 135.3% and 229.3%.

Following shareholder approval at the 2018 Annual General Meeting, the Company undertook a sub-division of its ordinary shares on 21 May 2018 with each existing ordinary share of 10 pence being replaced by five new ordinary shares of 2 pence.

Despite rising trade tensions and worries about a cyclical slowdown in a few key sectors, the domestic economy in Japan remains in good health. Severe labour shortage across several sectors is driving strong wage growth and forcing some companies to invest more in labour saving technologies. Continuing the trend seen in recent quarters, growth in corporate capital expenditure remains robust and recently reached levels not seen since 2006. Inbound tourism also continues to be strong. More than 20 million foreigners have visited Japan so far this year and the government is on course to achieving its 2020 target of 40 million visitors.

Among the notable positive performers during the first half of the year were a selection of disruptive online businesses that continue to grow rapidly either by creating entirely new markets or by aggressively taking share from sleepy and slow-moving traditional incumbents. Data analytics company Brainpad was the top performer, with its share price more than doubling in the first half of the year. The company's proprietary data analytics software is seeing rapid adoption by numerous large clients. In addition, its new artificial intelligence tool which automates various repetitive tasks is being widely adopted by businesses seeking to improve staff productivity amidst a severe labour shortage.

Past performance is not a guide to future performance.

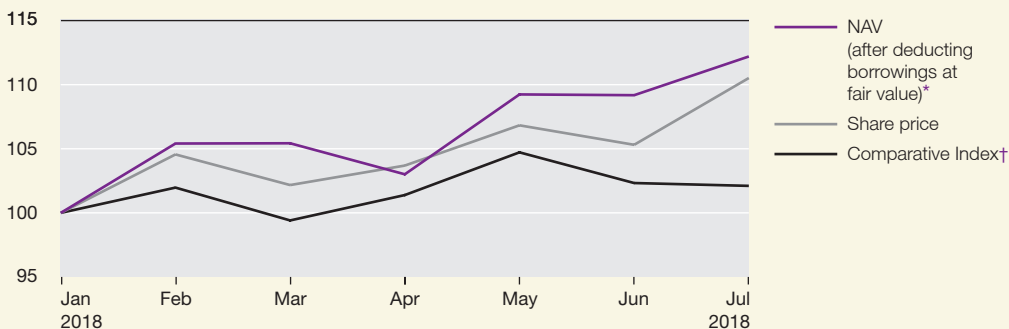
Infomart was another strong performer during this period. Its online food ordering system for restaurants has now become the de facto industry standard in Japan. The company has gained tremendous scale in terms of both restaurants and food wholesalers who use its online system for business transactions. To consolidate its already strong competitive position, the company is continuing to add new features to its ordering platform. It recently launched an online invoicing system that is proving to be a major hit with clients from a range of sectors. The Japanese Ministry of Economy, Trade and Industry recently highlighted Infomart's system as an example of an innovative solution designed to improve productivity and reduce system costs. This endorsement has raised the company's profile and has helped generate a lot of interest in its product offering.

Other strong performers included some of our longstanding holdings such as Start Today, Japan's leading fashion e-commerce platform, and MonotaRO, a leading online retailer of maintenance and repair supplies. Start Today recently launched its private branded clothing range and despite the market's initial scepticism regarding management's execution abilities, the company continues to make good operational progress in this new venture. In a similar vein, having reacted negatively to MonotaRO's heavy upfront investments to secure long-term growth at the cost of short-term profits, the market has now begun to recognise the strength of its competitive advantage and growth opportunity. This has resulted in a strong upward move in the shares so far this year.

Against a challenging backdrop, companies in cyclical industries exposed to global demand have fared poorly so far this year. Harmonic Drive, a leading global manufacturer of specialist precision parts for smaller robots, was among the weakest names in the portfolio. It is suffering from a slowdown in demand from China and a worsening of the competitive environment. The company is facing stiff competition from new entrants who are not only competing on price but are also steadily catching up in terms of technology. Megachips, a fabless manufacturer of electronic components for gaming consoles and consumer electronics, saw considerable share price weakness following the cancellation of a large order by a major client. Japan's leading online real estate website operator, Lifull remained out of favour as management continue to expand overseas through acquisitions funded by equity issuance whilst the core online property rentals business continues to struggle.

Six Months Performance

(figures plotted on a monthly basis and rebased to 100 at 31 January 2018)



* See Glossary of Terms on page 16.

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

Source: Thomson Reuters/Baillie Gifford and relevant underlying index providers. See disclaimer on page 17.

Given our long-term investment horizon, portfolio turnover remained low at 11.3%. However, we purchased a few new holdings during the six months. Among these was Kitz, a manufacturer of valves used in a variety of end markets. It has the top share in several niche sectors in Japan and is among the top 10 players globally. It has a diversified customer base and has particularly strong competitive positions in residential, semiconductor and petrochemical related valves. Management's capital allocation has been excellent over the years. They've made small acquisitions to expand their global network and have also bought back a considerable number of shares over the past decade. We also took a new holding in KH Neochem, a chemicals manufacturer that has a strong competitive position in its key product categories. The company makes specialist chemical products used as raw materials in cosmetics, environmentally friendly refrigerants for air-conditioners and building materials. Each of the company's end markets is growing and as one of the few global suppliers of these base chemicals, it also has pricing power. We therefore think that the long-term growth prospects of KH Neochem look exciting.

We also sold some stocks during the six months. Online user-generated recipe website Cookpad continues to struggle as its product offering is becoming increasingly un-differentiated amidst intensifying competition from new entrants. Following a recent meeting with the CEO, we believe that the prospects of a turnaround are remote and hence

decided to sell our entire holding. We also sold our holding in condominium builder Takara Leben where a combination of weak demand, and rising land and labour costs have pushed the company into a precarious position.

We have previously noted that the range of investment opportunities for Shin Nippon continues to broaden. The IPO market remains robust with around 50 companies listing so far this year. We participated in the IPO of Raksul, an exciting, high growth business run by its young and entrepreneurial founders. It has developed an online, cloud-based system that connects service providers with clients in real-time. It is currently focussing on disrupting the domestic printing and logistics sectors, both of which remain very inefficient, traditional and quite large.

Shin Nippon continues to focus on investing in the most dynamic and innovative smaller businesses that are emerging in Japan. We believe that the operating environment for such companies has improved immensely in recent years and are seeing a newfound confidence amongst young entrepreneurs. This augurs well for Shin Nippon in terms of the opportunity to identify and invest in such exciting, high growth businesses.

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

Baillie Gifford & Co

Twenty Largest Equity Holdings at 31 July 2018

Name	Business	Value £'000	% of total assets	Absolute performance* %
Outsourcing	Employment placement services	21,121	3.9	23.5
MonotaRO	Online business supplies	20,669	3.8	72.6
Istyle	Beauty product review website	19,980	3.7	37.5
GMO Payment Gateway	Online payment processing	16,038	3.0	38.5
Asahi Intecc	Specialist medical equipment	14,869	2.7	6.9
Yume No Machi	Online meal delivery service	14,598	2.7	47.2
Start Today	Internet fashion retailer	13,806	2.5	48.8
Optex	Infrared detection devices	11,904	2.2	0.3
Nihon M&A Center	M&A advisory services	11,080	2.0	(2.9)
Infomart Corp	Internet platform for restaurant supplies	11,021	2.0	91.9
Peptidream	Drug discovery and development platform	10,984	2.0	2.1
Horiba	Manufacturer of measuring instruments	10,731	2.0	16.7
Bengo4.com	Online legal consultation	10,375	1.9	78.8
Megachips	Electronic components	10,070	1.9	(34.5)
Nifco	Value-added plastic car parts	9,951	1.8	(6.1)
Katitas	Real estate services	9,789	1.8	38.2
Noritsu Koki	Holding company with interests in biotech and agricultural products	9,446	1.7	(17.2)
Raksul	Internet based services	9,329	1.7	105.7 †
Jeol	Manufacturer of scientific equipment	9,042	1.7	79.9
M3	Online medical services	8,985	1.7	12.7
		253,788	46.7	

* Absolute performance is in sterling terms and has been calculated on a total return basis over the period 1 February 2018 to 31 July 2018.

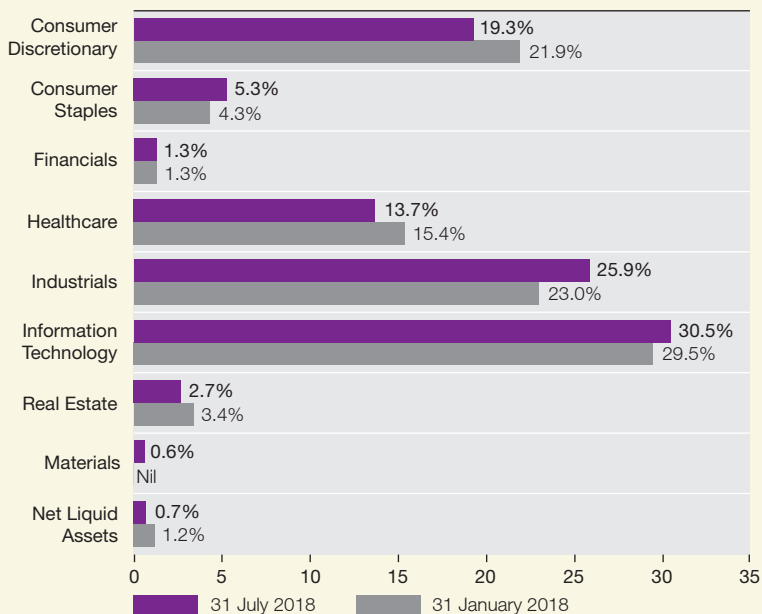
† Figures relate to part period returns where the equity has been purchased during the period.

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

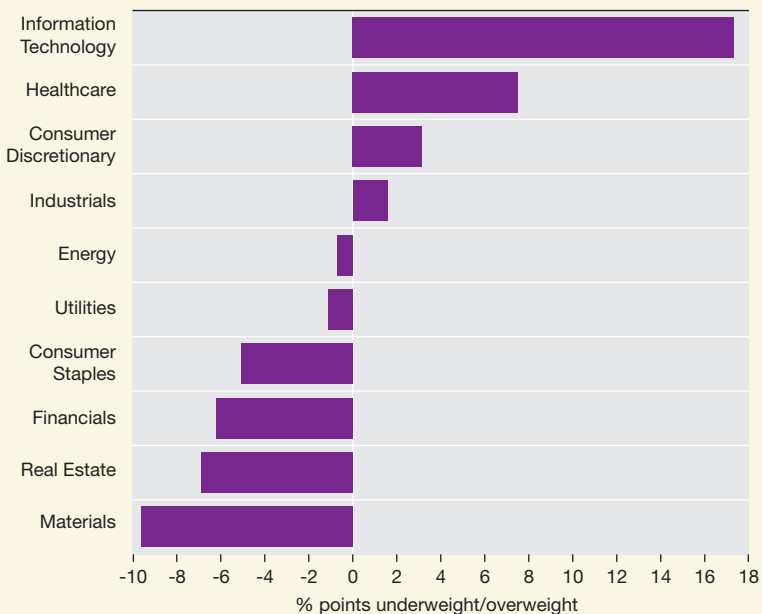
Past performance is not a guide to future performance.

Distribution and Relative Weightings

Distribution of Total Assets



Portfolio Weightings relative to Comparative Index* at 31 July 2018



* MSCI Japan Small Cap Index (total return and in sterling terms).
See disclaimer on page 17.

Income Statement (unaudited)

	For the six months ended 31 July 2018			For the six months ended 31 July 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net gains on investments (note 3)	–	51,417	51,417	–	36,186	36,186
Currency (losses)/gains	–	(2,829)	(2,829)	–	1,211	1,211
Income from investments	2,193	–	2,193	1,575	–	1,575
Investment management fee (note 4)	(1,465)	–	(1,465)	(935)	–	(935)
Other administrative expenses	(360)	–	(360)	(221)	–	(221)
Net return before finance costs and taxation	368	48,588	48,956	419	37,397	37,816
Finance costs of borrowings	(500)	–	(500)	(342)	–	(342)
Net return on ordinary activities before taxation	(132)	48,588	48,456	77	37,397	37,474
Tax on ordinary activities (note 5)	(219)	–	(219)	(157)	–	(157)
Net return on ordinary activities after taxation	(351)	48,588	48,237	(80)	37,397	37,317
Net return per ordinary share* (note 7)	(0.14p)	19.58p	19.44p	(0.04p)	18.12p	18.08p

* Prior period figures restated for the five for one share split on 21 May 2018.

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 2018 £'000	At 31 January 2018 (audited) £'000
Fixed asset investments		
Investments held at fair value through profit or loss (note 8)	538,223	443,917
Current assets		
Debtors	3,475	2,833
Cash and cash equivalents	6,055	5,668
	9,530	8,501
Creditors		
Amounts falling due within one year	(5,604)	(3,129)
Net current assets	3,926	5,372
Total assets less current liabilities	542,149	449,289
Creditors		
Amounts falling due after more than one year (note 9)	(50,628)	(47,877)
Total net assets	491,521	401,412
Capital and reserves		
Share capital	5,186	4,749
Share premium account	136,610	95,174
Capital redemption reserve	21,521	21,521
Capital reserve	334,038	285,451
Revenue reserve	(5,834)	(5,483)
Shareholders' funds	491,521	401,412
Net asset value per ordinary share* (after deducting borrowings at book value)	189.6p	169.1p
Ordinary shares in issue* (note 11)	259,302,485	237,427,485

* Prior period figures have been restated for the five for one share split on 21 May 2018.

Statement of Changes in Equity (unaudited)

For the six months ended 31 July 2018

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2018	4,749	95,174	21,521	285,451	(5,483)	401,412
Ordinary shares issued (note 11)	437	41,436	–	–	–	41,873
Net return on ordinary activities after taxation	–	–	–	48,587	(351)	48,236
Shareholders' funds at 31 July 2018	5,186	136,610	21,521	334,038	(5,834)	491,521

For the six months ended 31 July 2017

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve * £'000	Revenue reserve £'000	Shareholders' funds £'000
Shareholders' funds at 1 February 2017	4,040	40,094	21,521	173,473	(5,256)	233,872
Ordinary shares issued (note 11)	195	12,846	–	–	–	13,041
Net return on ordinary activities after taxation	–	–	–	37,397	(80)	37,317
Shareholders' funds at 31 July 2017	4,235	52,940	21,521	210,870	(5,336)	284,230

* The Capital reserve includes investment holding gains of £261,503,000 (31 July 2017 – gains of £159,020,000).

Condensed Cash Flow Statement (unaudited)

	Six months to 31 July 2018 £'000	Six months to 31 July 2017 £'000
Cash flows from operating activities		
Net return on ordinary activities before taxation	48,456	37,474
Net gains on investments	(51,417)	(36,186)
Currency losses/(gains)	2,829	(1,211)
Finance costs of borrowings	500	342
Overseas withholding tax	(245)	(181)
Changes in debtors and creditors	385	(203)
Cash from operations	508	35
Interest paid	(477)	(303)
Net cash inflow/(outflow) from operating activities	31	(268)
Net cash outflow from investing activities	(42,933)	(30,284)
Ordinary shares issued	43,255	13,041
Bank loans drawdown	–	14,403
Net cash inflow from financing activities	43,255	27,444
Increase/(decrease) in cash and cash equivalents	353	(3,108)
Exchange movements	34	(75)
Cash and cash equivalents at start of period	5,668	5,520
Cash and cash equivalents at end of period*	6,055	2,337

* 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 2018 comprise the statements set out on pages 6 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 February 2018 with consequential amendments and have not been audited or reviewed by the Auditors pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Financial Statements for the six months to 31 July 2018 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 2018.

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 Company's assets, which are primarily investments in quoted securities which are readily realisable, exceed its liabilities significantly. All borrowings require the prior approval of the Board. Gearing levels and compliance with loan covenants are reviewed by the Board on a regular basis. Accordingly, the 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 2018 has been extracted from the statutory accounts which have been filed with the Registrar of Companies. The Auditors' Report on these accounts was not qualified, did not include a reference to any matters to which the Auditors 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 2018 £'000	Six months to 31 July 2017 £'000
3 Net gains on investments		
Gains on sales of investments	12,187	6,294
Movement in investment holding gains	39,230	29,892
	51,417	36,186

- 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 0.95% 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.
- 5 The Company suffers overseas withholding tax on its equity income, currently at the rate of 10%.
- 6 No interim dividend will be declared.

Notes to the Condensed Financial Statements (unaudited)

	Six months to 31 July 2018 £'000	Six months to 31 July 2017 £'000
7 Net return per ordinary share		
Revenue return	(351)	(80)
Capital return	48,588	37,397
Total Return	48,237	37,317

Net return per ordinary share is based on the above totals of revenue and capital and on 248,142,402 (31 July 2017* – 206,366,990) 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.

* Prior period figures have been restated for the five for one share split on 21 May 2018.

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 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed equities	536,914	–	–	536,914
Unlisted equities	–	–	1,309	1,309
Total financial asset investments	536,914	–	1,309	538,223

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

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 (price of recent investment, 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 after more than one year include bank loans of £50,628,000 (¥7.45 billion) outstanding under yen loan facilities repayable on 27 November 2020 and 18 December 2024 (31 January 2018 – £47,877,000 (¥7.45 billion)).
- 10 The fair value of the bank loans at 31 July 2018 was £51,505,000 (31 January 2018 – £48,646,000).
- 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, 21,875,000 shares were issued at a premium to net asset value raising net proceeds of £41,873,000 (31 July 2017 – 1,950,000 shares raising net proceeds of £13,041,000). No shares were bought back during the period under review (31 July 2017 – nil). The prior period figures have been restated for the five for one share split on 21 May 2018.
- 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 £36,000 (31 July 2017 – £19,000) and transaction costs on sales amounted to £15,000 (31 July 2017 – £7,000).

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.

- 14 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, by asking a professional adviser to do so, or through the Baillie Gifford savings vehicles.

Share Split

At the Annual General Meeting on 18 May 2018, shareholders approved a five for one share split which became effective on 21 May 2018 (see Glossary of terms on page 16).

Baillie Gifford's Investment Trust Share Plan

You can invest from a minimum of £250 or from £30 per month. The plan is designed to be a cost-effective way of saving on a regular or lump sum basis.

Baillie Gifford's Investment Trust ISA

You can invest in a tax efficient way by investing a minimum of £2,000 or from £100 per month or by transferring an ISA with a value of at least £2,000 from your existing manager.

Baillie Gifford's Children's Savings Plan

A cost-effective plan tailored especially to meet the requirements to save for children. You can invest a minimum of £100 or from £25 per month.

Online Management Service

You can 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 at www.bailliegifford.com/oms. As well as being able to view the details of your plan online, the service also allows you to:

- obtain current valuations;
- make lump sum investments, except where there is more than one holder;
- sell part or all of your holdings, except where there is more than one holder;
- switch between investment trusts, except where there is more than one holder;

- set up a direct debit to make regular investments, except where there is more than one holder; and
- update certain personal details e.g. address and telephone number.

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

The information about the ISA, Share Plan and Children's Savings Plan has been approved by Baillie Gifford Savings Management Limited ('BGSM').

BGSM is the ISA Manager, the Manager of the Share Plan and Children's Savings Plan. BGSM is wholly owned by Baillie Gifford & Co. Both are authorised and regulated by the Financial Conduct Authority. Baillie Gifford only provides information about its products and does not provide investment advice.

Risk Warnings

Past performance is not a guide to future performance.

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.

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.

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.

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

(Risk Warnings continued on next page)

Risk Warnings (continued)

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.

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

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.

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

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

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

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

The favourable tax treatment of ISAs may change.

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.

Details of other risks that apply to investment in the savings vehicles shown on page 14 are contained in the product brochures.

The staff of Baillie Gifford and Shin Nippon's Directors may hold shares in 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

Total Assets

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

Net Asset Value

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

Net Asset Value (Borrowings at Fair Value)

Borrowings are valued at an estimate of their market worth. The Company's yen denominated loans are fair valued with reference to 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.

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 Liquid Assets

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

Discount/Premium

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

Total Return

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

Ongoing Charges

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value (with debt at fair value).

Gearing

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

Leverage

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

Active Share

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

Share Split

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

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