



Baillie Gifford Shin Nippon PLC
Half-Yearly Financial Report 31 July 2011

Investing in new opportunities in Japan



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.

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 relate to the Company's investment activities. These risks are market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. An explanation of these risks and how they are managed is contained in note 19 of the Company's Annual Report and Financial Statements for the year to 31 January 2011. The principal risks and uncertainties have not changed since the publication of the Annual Report, which can be obtained free of charge from Baillie Gifford & Co (see contact details on the back cover of this report) and is available on the Shin Nippon page of the Managers' website: www.shinnippon.co.uk. Other risks facing the Company include the following: gearing risk (the use of borrowing can magnify the impact of falling markets), the risk that the discount can widen, regulatory risk (that the loss of investment trust status or a breach of the UKLA Listing Rules could have adverse financial consequences and cause reputational damage), and operational/financial risk (failure of service providers' accounting systems could lead to inaccurate reporting or financial loss). Further information can be found on page 19 of the Annual 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 the Accounting Standards Board's statement 'Half-Yearly Financial Reports';
- b) the Half-Yearly 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 Half-Yearly 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).

By order of the Board

BM Rose
Chairman

15 September 2011



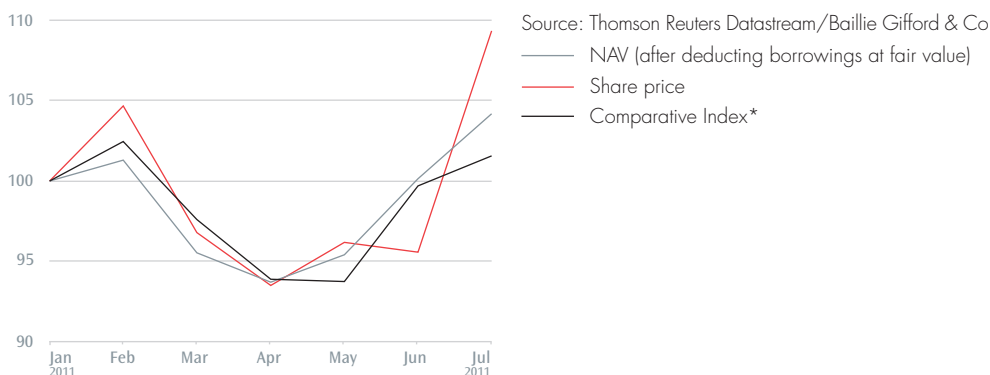
Summary of Unaudited Results

	31 July 2011	31 January 2011	% change
Shareholders' funds	£58.0m	£55.7m	
Net asset value per ordinary share (after deducting borrowings at fair/par value)	186.5p	179.0p	4.2
Share price	178.5p	163.3p	9.3
Comparative Index*			1.5
Discount (borrowings at fair/par value)	4.3%	8.8%	

Period's high and low	Six months to 31 July 2011		Year to 31 January 2011	
	High	Low	High	Low
Net asset value per ordinary share (after deducting borrowings at fair/par value)	189.6p	140.1p	182.8p	139.4p
Share price	180.9p	133.0p	176.5p	115.3p
Premium/(discount) (borrowings at fair value)	1.2%	(13.0%)	(0.1%)	(19.0%)

Six Months Performance

(figures plotted on a monthly basis and rebased to 100 at 31 January 2011)



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

Past performance is not a guide to future performance.

Half-Yearly Management Report

Over the six months to 31 July 2011, Shin Nippon's net asset value per share (after deducting borrowings at fair value) rose by 4.2% compared to a rise of 1.5% in sterling terms in the MSCI Japan Small Cap index. Sterling returns over the period benefited from the strengthening yen. The performance of Japanese smaller companies in general held up better than the broad Japanese market and most major world markets in sterling terms over the period.

The most significant event in Japan over the period was the devastating earthquake in Tohoku on the 11th March. This was the largest recorded earthquake to have struck Japan and the consequent tsunami left 20,000 people dead or missing. This dreadful human tragedy had a major impact on the economy, which shrunk in the first two quarters of the year as manufacturing supply chains were disrupted and consumption was held back during the official period of mourning. While a great deal of rebuilding in the area worst affected has still to be carried out, the rebound in economic activity has been swift with

most factories back up to pre-earthquake levels of production and consumer activity essentially back to normal. The earthquake may speed up the trend to shift production capacity overseas but that move was already in place at most well managed companies.

In local currency terms the Japanese market fell over the six months, partly due to concerns about the impact of the natural disaster but also due to the re-emergence of worries about a slowdown in global growth. However, recently announced first quarter results have actually been better than many Japanese companies initially forecast, as demand rebounded surprisingly quickly. It seems likely that estimates for the full year will have to be revised up in many cases, as the benefits of large government reconstruction spending programmes boost growth in the second half of the year. The Japanese prime minister has just stepped down, taking responsibility for the poor handling of the response to the crisis by the authorities, but in the last few weeks of his tenure a serious debate has finally emerged regarding the

privatisation of government assets to help pay for reconstruction and in the long term to help pay down government debt.

Healthcare companies, where growth is broadly uncorrelated to movements in the wider economy, were amongst the strongest performing stocks.

Message, a leading operator of residential homes for the elderly, and **M3**, the messaging website that allows pharmaceutical companies to market their drugs cheaply to doctors, were two of the best performing holdings.

Internet-based companies also tended to perform well over the period. In general, internet-based distributors seem to have been much more reliable than traditional retail channels in the period immediately after the earthquake. Consequently, the appeal of internet ordering, for both consumers and companies, has risen further. **Start Today**, the leading fashion website in Japan, and **Monotaro**, a company that allows small business customers to order all their components directly from their website, witnessed very strong sales and share price performance over the period. The long term growth in mobile internet usage continued and it was pleasing to see **Capcom** performing much better as the company started to demonstrate that it can adapt its strong console games' franchises to the mobile phone market.

The focus on energy conservation has become even more necessary as Japan plans for a future with lower reliance on nuclear energy after the Fukushima incident. We continue to investigate many smaller Japanese companies that should benefit from this move. In the current environment **Hoshizaki Electric**, a global leader in commercial refrigerators, performed well following strong sales of its new energy efficient models.

Foster Electric, the headphone supplier to leading mobile phone and portable music player manufacturers, had a poor six months due to some pressure on profitability as rare earth metal prices rose. However, the prospect of price increases in the near future to offset this, as several new products are launched, looks encouraging. Our real estate investments also failed to recover despite some of the overall figures regarding the Japanese property market starting to improve.

The recent volatility in markets has allowed us to make some new purchases in lowly valued companies that are capable of delivering strong earnings growth over the next few years. **Nikkiso** is a manufacturer of specialist industrial and medical pumps that has expanded its global presence by purchasing a European rival. The company also has attractive exposure to the rapid growth in the Chinese hospital market thanks to its joint venture with a leading Chinese medical equipment manufacturer. We have also taken holdings in two companies that should benefit from the acceleration of growth in markets that have been slow to take off in Japan. The bankruptcy of JAL, Japan's flagship carrier has resulted in more landing slots becoming available at the recently expanded Haneda airport in Tokyo. This development makes it easier for leading low cost airline **Skymark** to expand and exploit the undoubted demand for low priced air travel in Japan. **JP Holdings**, a company that operates childcare facilities, now appears to have the support of the authorities to help meet the huge unmet demand from women who are keen to return to work after having children.

Shin Nippon continues to offer exposure to a blend of superior quality Japanese smaller companies that have the potential to grow either by exploiting an opportunity in an exciting new market within Japan or by broadening out geographically to benefit from the emergence of the Asian consumer. Despite the better period of relative performance, valuations in many cases suggest that the market does not expect any growth at all in the future which we believe is overly pessimistic.

The ¥1.15 billion bank loan was re-financed on 10 August 2011 for a further three years on similar terms.

The principal risks and uncertainties facing the Company are outlined on the inside front cover of this report. Details of related party transactions are contained in note 4 on page 11.

By order of the Board

Baillie Gifford & Co
15 September 2011

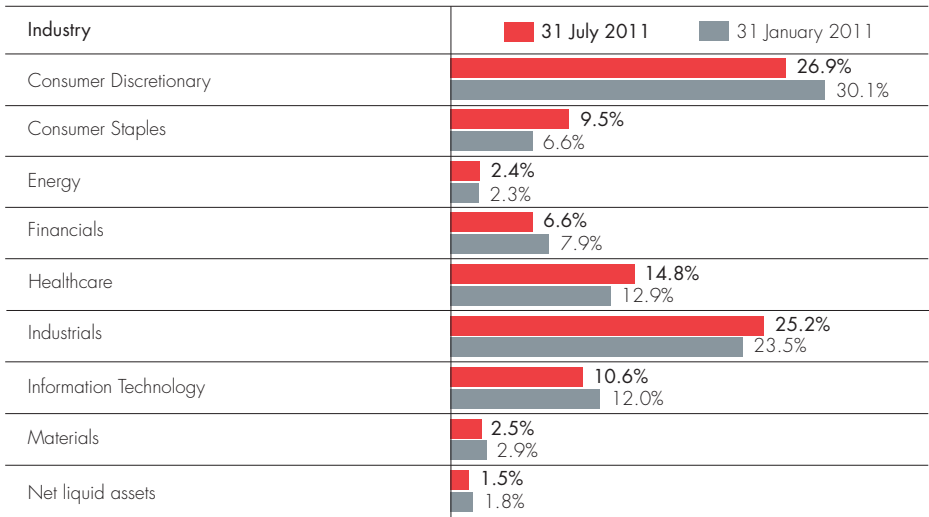
Past performance is not a guide to future performance.

Twenty Largest Equity Holdings at 31 July 2011

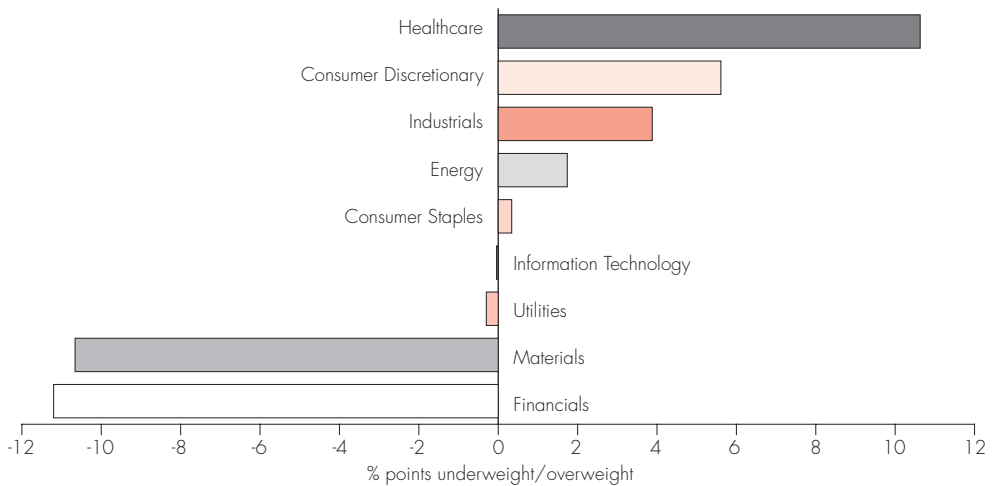
Name	Business	Value £'000	% of total assets
Start Today	Internet fashion retailer	3,569	5.3
Message	Nursing services for the elderly	3,105	4.6
Nabtesco	Hydraulic equipment	2,357	3.5
Don Quijote	Discount store chain	2,234	3.3
Hamakyorex	Third party logistics	2,041	3.0
EPS	Clinical testing services	1,743	2.6
H.I.S.	Discount travel agency	1,704	2.5
Cocokara Fine	Drugstore chain	1,692	2.5
Monotaro	Supplies small machinery parts	1,659	2.5
Daikokutenbussan	Discount store for food and sundry goods	1,597	2.4
M3	Online medical database	1,590	2.4
Nakanishi	Dental equipment	1,519	2.3
Iriso Electronics	Specialist connectors	1,321	2.0
Unipres	Manufacturer of automotive components	1,304	2.0
Asics	Sports shoes and clothing	1,268	1.9
First Juken	Builds and sells residential buildings	1,210	1.8
Nippon Thompson	Needle roller bearings	1,210	1.8
Nihon M&A Center	M&A advisory services	1,165	1.7
Osaka Securities Exchange	Stock exchange operator	1,124	1.7
Horiba	Manufacturer of measuring instruments and analysers	1,100	1.6
		34,512	51.4

Distribution and Relative Weightings

Distribution of total assets



Portfolio weightings relative to Comparative Index* at 31 July 2011



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

Income Statement (unaudited)

	For the six months ended 31 July 2011		
	Revenue £'000	Capital £'000	Total £'000
Net gains on investments (note 3)	–	2,471	2,471
Currency losses	–	(268)	(268)
Income from investments	673	–	673
Investment management fee (note 4)	(275)	–	(275)
Other administrative expenses	(135)	–	(135)
Net return before finance costs and taxation	263	2,203	2,466
Finance costs of borrowings	(91)	–	(91)
Net return on ordinary activities before taxation	172	2,203	2,375
Tax on ordinary activities (note 5)	(47)	–	(47)
Net return on ordinary activities after taxation	125	2,203	2,328
Net return per ordinary share (note 7)	0.40p	7.08p	7.48p

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 period.

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.

For the six months ended 31 July 2010			For the year ended 31 January 2011		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
-	4,592	4,592	-	12,795	12,795
-	(549)	(549)	-	(812)	(812)
613	-	613	1,108	-	1,108
(247)	-	(247)	(503)	-	(503)
(123)	-	(123)	(234)	-	(234)
243	4,043	4,286	371	11,983	12,354
(88)	-	(88)	(179)	-	(179)
155	4,043	4,198	192	11,983	12,175
(43)	-	(43)	(78)	-	(78)
112	4,043	4,155	114	11,983	12,097
0.36p	13.00p	13.36p	0.37p	38.53p	38.90p

Balance Sheet (unaudited)

	At 31 July 2011 £'000	At 31 July 2010 £'000	At 31 January 2011 £'000
Fixed asset investments			
Listed equities	66,032	54,113	63,245
Unlisted equities†	–	1,172	–
	66,032	55,285	63,245
Current assets			
Debtors	904	126	124
Cash and short term deposits	1,154	1,019	1,333
	2,058	1,145	1,457
Creditors			
Amounts falling due within one year (note 8)	(10,096)	(233)	(9,036)
Net current assets	(8,038)	912	(7,579)
Total assets less current liabilities	57,994	56,197	55,666
Creditors			
Amounts falling due after more than one year (note 8)	–	(8,473)	–
Total net assets	57,994	47,724	55,666
Capital and reserves			
Called-up share capital	3,110	3,110	3,110
Share premium	7,674	7,674	7,674
Capital redemption reserve	21,521	21,521	21,521
Capital reserve	30,094	19,951	27,891
Revenue reserve	(4,405)	(4,532)	(4,530)
Shareholders' funds	57,994	47,724	55,666
Net asset value per ordinary share (after deducting borrowings at fair value) (note 9)	186.5p	153.1p	179.0p
Net asset value per ordinary share (after deducting borrowings at par value)	186.5p	153.5p	179.0p
Ordinary shares in issue (note 10)	31,100,497	31,100,497	31,100,497

† 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.

Reconciliation of Movements in Shareholders' Funds (unaudited)

For the six months ended 31 July 2011

	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 Feb 2011	3,110	7,674	21,521	27,891	(4,530)	55,666
Net return on ordinary activities after taxation	-	-	-	2,203	125	2,328
Shareholders' funds at 31 July 2011	3,110	7,674	21,521	30,094	(4,405)	57,994

For the six months ended 31 July 2010

	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 Feb 2010	3,110	7,674	21,521	15,908	(4,644)	43,569
Net return on ordinary activities after taxation	-	-	-	4,043	112	4,155
Shareholders' funds at 31 July 2010	3,110	7,674	21,521	19,951	(4,532)	47,724

For the year ended 31 January 2011

	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 Feb 2010	3,110	7,674	21,521	15,908	(4,644)	43,569
Net return on ordinary activities after taxation	-	-	-	11,983	114	12,097
Shareholders' funds at 31 January 2011	3,110	7,674	21,521	27,891	(4,530)	55,666

* The Capital reserve includes investment holding gains of £15,333,000 (31 July 2010 – gains of £7,601,000; 31 January 2011 – gains of £14,892,000).

Condensed Cash Flow Statement (unaudited)

	Six months to 31 July 2011 £'000	Six months to 31 July 2010 £'000	Year to 31 January 2011 £'000
Net cash inflow from operating activities	242	273	440
Net cash outflow from servicing of finance	(107)	(85)	(171)
Total tax paid	(46)	(47)	(83)
Net cash (outflow)/inflow from financial investment	(294)	218	447
(Decrease)/increase in cash	(205)	359	633

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash in the period	(205)	359	633
Exchange movement on bank loans	(313)	(556)	(846)
Exchange differences on cash	26	41	81
Movement in net debt in the period	(492)	(156)	(132)
Net debt at start of the period	(7,430)	(7,298)	(7,298)
Net debt at end of the period	(7,922)	(7,454)	(7,430)

Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

Net return before finance costs and taxation	2,466	4,286	12,354
Gains on investments	(2,471)	(4,592)	(12,795)
Currency losses	268	549	812
Changes in debtors and creditors	(21)	30	69
Net cash inflow from operating activities	242	273	440

Notes to the Condensed Financial Statements (unaudited)

- 1 The condensed financial statements comprise the statements set out on pages 6 to 10 together with the related notes on pages 11 and 12. They 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 2011 and in accordance with the ASB's Statement 'Half-Yearly Financial Reports' and have not been audited or reviewed by the Auditors pursuant to the Auditing Practices Board Guidance on 'Review of Interim Financial Information'. The Company's assets, the majority of which are investments in quoted securities which are readily realisable, exceed its liabilities significantly. Accordingly, the Half-Yearly Financial Report has 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.
- 2 The financial information contained within this Half-Yearly 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 2011 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 and did not contain a statement under sections 498 (2) or (3) of the Companies Act 2006.

	Six months to 31 July 2011 £'000	Six months to 31 July 2010 £'000	Year to 31 January 2011 £'000
3 Net gains on investments			
Gains on sales of investments	2,030	531	1,443
Movement in investment holding gains	441	4,061	11,352
	2,471	4,592	12,795

- 4 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 her retirement on 17 June 2010, is a partner of Baillie Gifford & Co.
- 5 The Company suffers overseas withholding tax on its equity income currently at the rate of 7%.
- 6 No interim dividend will be declared.

Notes to Condensed Financial Statements (continued)

	Six months to 31 July 2011 £'000	Six months to 31 July 2010 £'000	Year to 31 January 2011 £'000
7 Net return per ordinary share			
Revenue return	125	112	114
Capital return	2,203	4,043	11,983
Total Return	2,328	4,155	12,097

Net return per ordinary share is based on the above totals of revenue and capital and on 31,100,497 (31 July 2010 – 31,100,497 and 31 January 2011 – 31,100,497) 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 The amounts falling due within one year include a bank loan of £9,076,000 (¥1.15 billion) outstanding under a yen loan facility repayable on 10 August 2011 (31 July 2010 – £8,473,000 (¥1.15 billion) included in amounts falling due after more than one year; 31 January 2011 – £8,763,000 (¥1.15 billion)).
- 9 The fair value of the bank loan at 31 July 2011 was £9,076,000 (31 July 2010 – £8,577,000; 31 January 2011 – £8,763,000).
- 10 At 31 July 2011 the Company had authority to buy back 4,661,964 of its own shares in accordance with the authority granted at the AGM in April 2011. No shares were bought back during the period under review.
- 11 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 £4,000 (31 July 2010 – £3,000; 31 January 2011 – £5,000) and transaction costs on sales amounted to £4,000 (31 July 2010 – £3,000; 31 January 2011 – £6,000).
- 12 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.

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 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 enables you to apply for, open and administer a Baillie Gifford Investment Trust Share Plan or Investment Trust ISA online. 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.

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 Services 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. As a result, 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.

As 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 '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.

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. The use of derivatives may impact on its performance.

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.

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 Company is listed on the London Stock Exchange and is not authorised or regulated by the Financial Services Authority.

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

Directors

Chairman:
BM Rose

PF Charig
IA McLaren
SCN Somerville
AJ Tulloch

Registrar

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Company Registration No. SC93345

Managers, Secretaries and Registered Office

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Further Information

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