



Baillie Gifford Shin Nippon PLC
Half-Yearly Financial Report 31 July 2012

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 2012. 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

20 September 2012

Summary of Unaudited Results

	31 July 2012	31 January 2012	% change
Shareholders' funds	£60.3m	£54.8m	
Net asset value per ordinary share (after deducting borrowings at fair value) [†]	193.6p	176.0p	10.0
Share price	182.5p	167.3p	9.1
Comparative Index*			(3.0)
Discount (borrowings at fair value) [†]	5.7%	4.9%	

	Six months to 31 July 2012		Year to 31 January 2012	
Period's high and low	High	Low	High	Low
Net asset value per ordinary share (after deducting borrowings at fair value) [†]	195.3p	174.8p	192.7p	140.1p
Share price	191.3p	160.5p	180.9p	133.0p
Premium/(discount) (borrowings at fair value) [†]	3.1%	(11.1%)	1.2%	(13.0%)

Notes

[†]Borrowings are deducted at fair value (the estimate of market worth).

Six Months Performance

(figures plotted on a monthly basis and rebased to 100 at 31 January 2012)



*MSCI Japan Small Cap Index (total return and in sterling terms).
Past performance is not a guide to future performance.

Half-Yearly Management Report

Having performed well at the start of the year, Japanese markets have subsequently given up their gains as concerns about the direction of the global economy returned to weigh on investor sentiment. Despite this, over the six months to 31 July 2012, Shin Nippon's net asset value per share rose by 10.0% compared to a 3.0% fall in the MSCI Japan Small Cap index (all in sterling terms).

The Japanese economy was on a healthier growth trajectory than large parts of the world in the first half of the year as post-earthquake reconstruction spending programmes began to be implemented. Domestic consumption was robust as unemployment declined and consumer confidence improved. Additionally, bank lending figures and indicators relating to both the housing and commercial property markets improved. However, although Japan does not have significant exposure to European demand, the slowdown in Chinese economic growth has had an impact on

its manufacturing sector and export and industrial production figures have now started to weaken. This was confirmed in the most recent sets of financial results where many of the companies that export to China noted a slowdown in new orders. However, it must be remembered that manufacturing companies now account for less than 30% of Japanese employment. More positively, the general tone of the results of more domestically focused Japanese companies is quite encouraging and overall Japanese companies' profits are still expected to rebound this year following last year's natural disaster.

Many of Shin Nippon's holdings that focus on emerging areas of growth within the Japanese economy are sheltered from fluctuations in the broader economy. These businesses continue to do well both operationally and in share price terms. The long term rise in spending on healthcare in Japan and the rest of Asia, as the population ages,

continues and several holdings that benefit from this trend performed well. EPS, a contract research organisation that provides outsourced drug testing services to the pharmaceutical industry, was a strong performer as demand for their services continues to rise. Meanwhile, Sysmex, a company that specialises in blood testing equipment for hospitals, continues to make good progress selling its products in overseas markets. In a related area, both our pharmacy chain holdings, Cosmos Pharmaceutical and Cocokara Fine, performed well as more prescriptions are dispensed and as more healthcare products in general are sold.

Two of the strongest performing businesses over the period were manufacturing related companies that have seen their sales momentum accelerate since the earthquake and tsunami last year. Recent new purchase Endo Lighting, one of the leading manufacturers of LED lighting for commercial use, is continuing to see demand increase rapidly as companies look to reduce their energy consumption due to the power shortages caused by the natural disasters last year. MonotaRO, an online supplier of consumable goods to small manufacturing businesses has proved itself to be more reliable at delivering orders after the earthquake than traditional "bricks and mortar" wholesalers many of which experienced severe disruption to their supply chains. As a result, it is increasing its number of new customers on a monthly basis.

The real estate related holdings, such as condominium builder Takara Leben and estate agent Tokyu Livable, were also good performers. The Japanese housing market appears to be picking up, driven by the availability of low cost borrowings and the prospect of a rise in sales tax in early 2014.

Given the long term investment horizon of the trust, turnover within the portfolio continues to be low, although five new holdings with exciting growth prospects were purchased during the period. One of these, Asahi Intecc, is one of Japan's strongest

medical equipment suppliers and is gaining share in overseas markets after strengthening its distribution networks. The company manufactures very accurate guidewires that are used in non-surgical treatments for heart disease. These new treatments are increasing in popularity because they are cheaper and perceived to be safer than heart surgery. The share price has been weak following flood related disruption at Asahi Intecc's Thai production facilities but our holding is based on our conviction that the long term strength of the firm remains intact. Another, Harmonic Drive, has a strong global market share in speed reduction gears and is especially strong in manufacturing small robotic arms where its components help control precise movement. It is benefitting from increasing demand for robotic machines, especially in Asia, as wages in the manufacturing sector rise and companies seek to offset these costs through automation. The company's advance into the non-manufacturing robot market provides further potential for the long term as this could be an area of rapid growth.

We believe that Shin Nippon continues to provide exposure to a mix of superior quality Japanese smaller companies that are growing either by exploiting an expanding niche within Japan or by expanding their presence in Asia. Encouragingly, Shin Nippon continues to find higher growth businesses that are on attractive ratings relative to the companies in its small cap universe.

The principal risks and uncertainties facing the Company are set out on the inside front cover of this report. Details of related party transactions are contained in note 4 of the condensed financial statements.

By order of the Board

Baillie Gifford & Co
20 September 2012

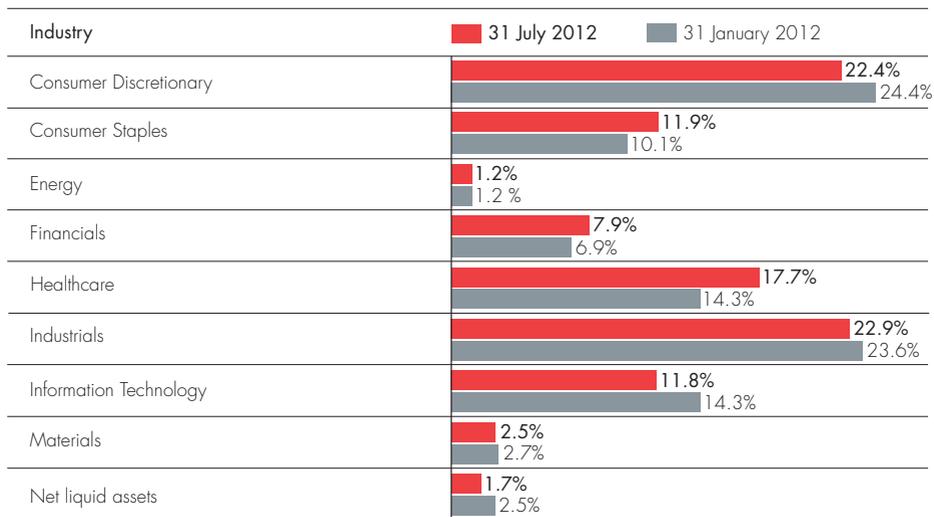
Past performance is not a guide to future performance.

Twenty Largest Equity Holdings at 31 July 2012

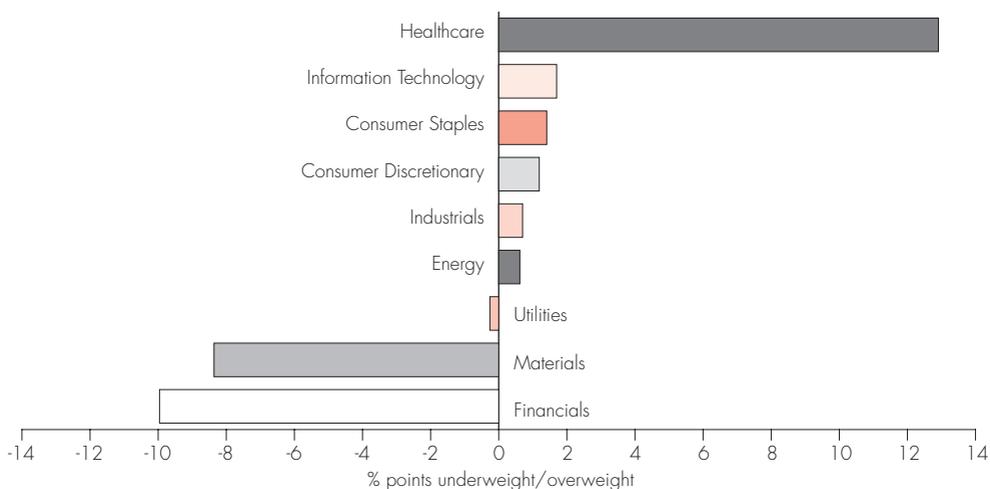
Name	Business	Value £'000	% of total assets
Message	Provides nursing services for the elderly	3,210	4.6
MonotaRO	Supplies small machinery parts	3,006	4.3
Cocokara Fine	Drugstore chain	2,315	3.3
Don Quijote	Discount store chain	2,285	3.3
Nabtesco	Hydraulic equipment	2,157	3.1
EPS	Clinical testing services	2,125	3.0
Hamakyorex	Third party logistics	2,118	3.0
Start Today	Internet fashion retailer	2,010	2.9
M3	Online medical database	1,927	2.8
Nakanishi	Dental equipment	1,589	2.3
First Juken	Builds and sells residential buildings	1,469	2.1
Nihon M&A Center	M&A advisory services	1,442	2.1
Endo Lighting	Energy efficient lighting	1,430	2.1
Osaka Securities	Stock exchange operator	1,398	2.0
Cosmos Pharmaceuticals	Drugstore chain	1,385	2.0
Daikokutenbussan	Discount store for food and sundry goods	1,385	2.0
Asics	Sports shoes and clothing	1,364	2.0
H.I.S.	Discount travel agency	1,296	1.9
FP Corp	Manufacture and sale of food containers	1,283	1.8
Unipres	Manufactures automotive components	1,261	1.8
		36,455	52.4

Distribution and Relative Weightings

Distribution of total assets



Portfolio weightings relative to Comparative Index* at 31 July 2012



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

Income Statement (unaudited)

	For the six months ended 31 July 2012		
	Revenue £'000	Capital £'000	Total £'000
Net gains/(losses) on investments (note 3)	–	5,270	5,270
Currency gains/(losses)	–	94	94
Income from investments	684	–	684
Investment management fee (note 4)	(298)	–	(298)
Other administrative expenses	(143)	–	(143)
Net return before finance costs and taxation	243	5,364	5,607
Finance costs of borrowings	(103)	–	(103)
Net return on ordinary activities before taxation	140	5,364	5,504
Tax on ordinary activities (note 5)	(48)	–	(48)
Net return on ordinary activities after taxation	92	5,364	5,456
Net return per ordinary share (note 7)	0.30p	17.25p	17.55p

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 2011			For the year ended 31 January 2012		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	2,471	2,471	–	(256)	(256)
–	(268)	(268)	–	(703)	(703)
673	–	673	1,219	–	1,219
(275)	–	(275)	(546)	–	(546)
(135)	–	(135)	(272)	–	(272)
263	2,203	2,466	401	(959)	(558)
(91)	–	(91)	(218)	–	(218)
172	2,203	2,375	183	(959)	(776)
(47)	–	(47)	(85)	–	(85)
125	2,203	2,328	98	(959)	(861)
0.40p	7.08p	7.48p	0.32p	(3.08p)	(2.76p)

Balance Sheet (unaudited)

	At 31 July 2012 £'000	At 31 July 2011 £'000	At 31 January 2012 £'000
Fixed asset investments			
Listed equities	68,432	66,032	62,698
Current assets			
Debtors	171	904	182
Cash and short term deposits	1,289	1,154	1,712
	1,460	2,058	1,894
Creditors			
Amounts falling due within one year (note 8)	(233)	(10,096)	(230)
Net current assets	1,227	(8,038)	1,664
Total assets less current liabilities	69,659	57,994	64,362
Creditors			
Amounts falling due after more than one year (note 8)	(9,398)	-	(9,557)
Total net assets	60,261	57,994	54,805
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	32,296	30,094	26,932
Revenue reserve	(4,340)	(4,405)	(4,432)
Shareholders' funds	60,261	57,994	54,805
Net asset value per ordinary share (after deducting borrowings at fair value) (note 9)	193.6p	186.5p	176.0p
Net asset value per ordinary share (after deducting borrowings at par value)	193.8p	186.5p	176.2p
Ordinary shares in issue (note 10)	31,100,497	31,100,497	31,100,497

Reconciliation of Movements in Shareholders' Funds (unaudited)

For the six months ended 31 July 2012

	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 2012	3,110	7,674	21,521	26,932	(4,432)	54,805
Net return on ordinary activities after taxation	–	–	–	5,364	92	5,456
Shareholders' funds at 31 July 2012	3,110	7,674	21,521	32,296	(4,340)	60,261

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 year ended 31 January 2012

	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	–	–	–	(959)	98	(861)
Shareholders' funds at 31 January 2012	3,110	7,674	21,521	26,932	(4,432)	54,805

* The Capital reserve includes investment holding gains of £18,387,000 (31 July 2011 – gains of £15,333,000; 31 January 2012 – gains of £12,621,000).

Condensed Cash Flow Statement (unaudited)

	Six months to 31 July 2012 £'000	Six months to 31 July 2011 £'000	Year to 31 January 2012 £'000
Net cash inflow from operating activities	248	242	342
Net cash outflow from servicing of finance	(104)	(107)	(255)
Total tax paid	(48)	(46)	(80)
Net cash (outflow)/inflow from financial investment	(502)	(294)	297
(Decrease)/increase in cash	(406)	(205)	304
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period	(406)	(205)	304
Exchange movement on bank loans	159	(313)	(794)
Exchange differences on cash	(17)	26	75
Movement in net debt in the period	(264)	(492)	(415)
Net debt at start of the period	(7,845)	(7,430)	(7,430)
Net debt at end of the period	(8,109)	(7,922)	(7,845)
Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities			
Net return before finance costs and taxation	5,607	2,466	(558)
(Gains)/losses on investments	(5,270)	(2,471)	256
Currency (gains)/losses	(94)	268	703
Changes in debtors and creditors	5	(21)	(59)
Net cash inflow from operating activities	248	242	342

Notes to the Condensed Financial Statements (unaudited)

- 1 The condensed financial statements for the six months to 31 July 2012 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 2012 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 2012 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 2012 £'000	Six months to 31 July 2011 £'000	Year to 31 January 2012 £'000
3 Net gains/(losses) on investments			
(Losses)/gains on sales of investments	(496)	2,030	2,015
Movement in investment holding gains	5,766	441	(2,271)
	5,270	2,471	(256)

- 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.
- 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 2012 £'000	Six months to 31 July 2011 £'000	Year to 31 January 2012 £'000
7 Net return per ordinary share			
Revenue return	92	125	98
Capital return	5,364	2,203	(959)
Total Return	5,456	2,328	(861)

Net return per ordinary share is based on the above totals of revenue and capital and on 31,100,497 (31 July 2011 – 31,100,497 and 31 January 2012 – 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 after more than one year include a bank loan of £9,398,000 (¥1.15 billion) outstanding under a yen loan facility repayable on 8 August 2014 (31 July 2011 – £9,076,000 (¥1.15 billion) included in amounts falling due within one year; 31 January 2012 – £9,557,000 (¥1.15 billion)).
- 9 The fair value of the bank loan at 31 July 2012 was £9,457,000 (31 July 2011 – £9,076,000; 31 January 2012 – £9,618,000).
- 10 At 31 July 2012 the Company had authority to buy back 4,661,964 of its own shares in accordance with the authority granted at the AGM in May 2012. 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 £3,000 (31 July 2011 – £4,000; 31 January 2012 – £8,000) and transaction costs on sales amounted to £2,000 (31 July 2011 – £4,000; 31 January 2012 – £9,000).
- 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.

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.

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.

This favourable tax treatment of ISAs may change.

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

The information and opinions expressed within this half yearly financial report are subject to change without notice. This information has been issued and approved by Baillie Gifford & Co and does not in any way constitute investment advice.

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

Directors

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BM Rose

PF Charig
IA McLaren
MR Somerset Webb
SCN Somerville

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Managers, Secretaries and Registered Office

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