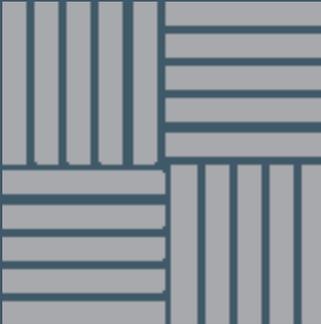


# BAILLIE GIFFORD SHIN NIPPON PLC

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Investing in new  
opportunities in Japan



Interim Financial Report  
31 July 2015





## 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, regulatory risk, operational risk, premium/discount volatility and leverage risk. An explanation of these risks and how they are managed is set out on pages 6 and 7 of the Company's Annual Report and Financial Statements for the year to 31 January 2015 which is available on the Company's website: [www.shinnippon.co.uk](http://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).

By order of the Board  
MN Donaldson  
Chairman  
7 September 2015

## Summary of Unaudited Results

	31 July 2015	31 January 2015	% change
Shareholders' funds	£150.6m	£128.6m	
Net asset value per ordinary share (after deducting borrowings at fair value)†	402.2p	343.7p	17.0
Share price	416.5p	321.0p	29.8
Comparative index*			6.1
Premium/(discount) (borrowings at fair value)†	3.6%	(6.6%)	
Active share#	94%	94%	

	Six months to 31 July 2015		Year to 31 January 2015	
Period's high and low	High	Low	High	Low
Net asset value per ordinary share (after deducting borrowings at fair value)†	413.9p	328.2p	343.7p	265.5p
Share price	423.8p	317.0p	334.8p	284.0p
Premium/(discount) (borrowings at fair value)†	5.8%	(7.9%)	12.9%	(9.3%)

### Notes

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

# 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.

## Longer Term Performance at 31 July 2015

	3 Years	5 Years	10 Years
Net asset value per ordinary share	107.7%	162.7%	107.5%
Share price	128.2%	211.4%	141.5%
Comparative index*	50.0%	64.3%	55.1%

Source: Thomson Reuters Datastream/Baillie Gifford.

\* 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.

## Interim Management Report

Japanese equities have outperformed most other markets around the world over the period, buoyed by continued strong earnings growth and improving management attitudes to shareholders.

In the six months to 31 July 2015 Shin Nippon's net asset value per share\* rose by 17.0% compared to a 6.1% rise in the MSCI Japan Small Cap index (all total returns in sterling terms).

The introduction of the Corporate Governance Code in Japan on the 1st June appears likely to have a major influence on the way businesses are run. For the first time, companies will be forced to comply with new recommendations regarding issues such as the number of outside directors and the amount of crossholdings that can be held. If the minimum standards are not met then boards will have to explain the reasons to their shareholders. We generally believe that Shin Nippon's holdings are managed by younger, more progressive management but this is good news for the reputation of the overall Japanese market.

Stocks that are seen as beneficiaries of the record numbers of Chinese tourists visiting Japan were very strong performers over the period, such as recent purchase Zojirushi, in contrast to companies that have significant exposure to the Chinese domestic economy which appears to be slowing. Sales of Zojirushi's high-end rice cookers, which are very popular with Asian tourists, continued to rise rapidly.

Amongst the other strongest performers in the portfolio were several of the long-term Internet related holdings. Their focus on rapidly expanding domestic niche markets allowed these businesses to carry on growing. Start Today, which operates the leading online apparel marketplace, Cookpad, the popular recipe sharing website, and Next, a large

property information portal, all continued to expand. The business models of these customer facing companies are progressing over time, with new ways to monetise the high volumes of visitors to the websites being developed. On the commercial side, MonotaRO, which operates a website that sells millions of items required by small businesses on a daily basis, and, Infomart, the online restaurant supply ordering system, both continued to grow rapidly. These two companies are displacing existing, less efficient ways of doing business and still have large untapped market opportunities to expand into within Japan. Many of these Internet businesses are reaching the point where they become sufficiently dominant in their niche that it is possible to start increasing the charges that they levy on their customers. If successful, this should increase the profitability of these businesses.

Turnover within the portfolio remains relatively low; however several new holdings were taken over the six months. In keeping with the investment case for several of the existing Internet holdings, Sanwa Co is using the Internet to bypass wholesalers, in this instance to sell kitchens and bathrooms direct to customers. By cutting out the costly layers of middlemen that currently dominate this fairly old fashioned industry, Sanwa is able to charge lower prices to customers and demand has been increasing as home refurbishment becomes more popular in Japan.

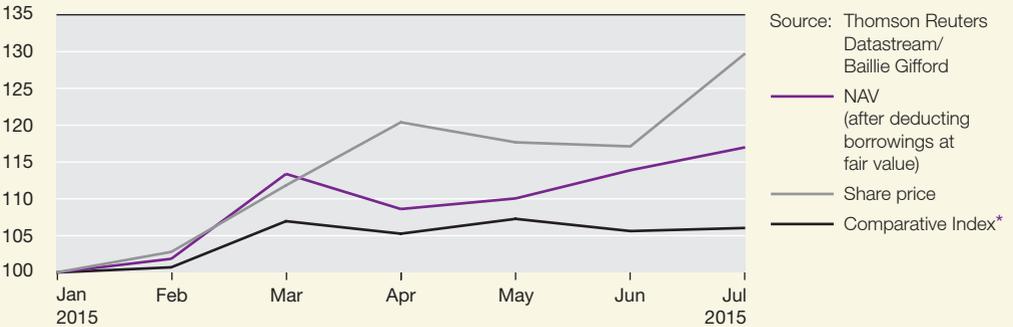
There have been further signs that the range of investment opportunities for Shin Nippon continues to broaden out. The environment for new listings continues to be healthy and we took a new holding in a relatively recent IPO, Sanbio. The company is developing a treatment for strokes based on stem

\*After deducting borrowings at fair value.

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 2015)



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

cell technologies. We continue to believe that the long-term prospects for the Japanese biotech industry are improving. Lastly, a new holding was taken in Sato Holdings, a leader in radio-frequency identification (RFID) chips. The cost of these electronic tags has fallen sufficiently that major clothing retailers are now using them to keep track of garments remotely throughout the supply-chain and within the retail network.

Shin Nippon continues to focus on investing in the most dynamic, innovative smaller businesses that are emerging in Japan. While the Japanese market has had a strong run over the past few years, we continue to find attractively valued, exciting investment opportunities with the potential to deliver high earnings growth.

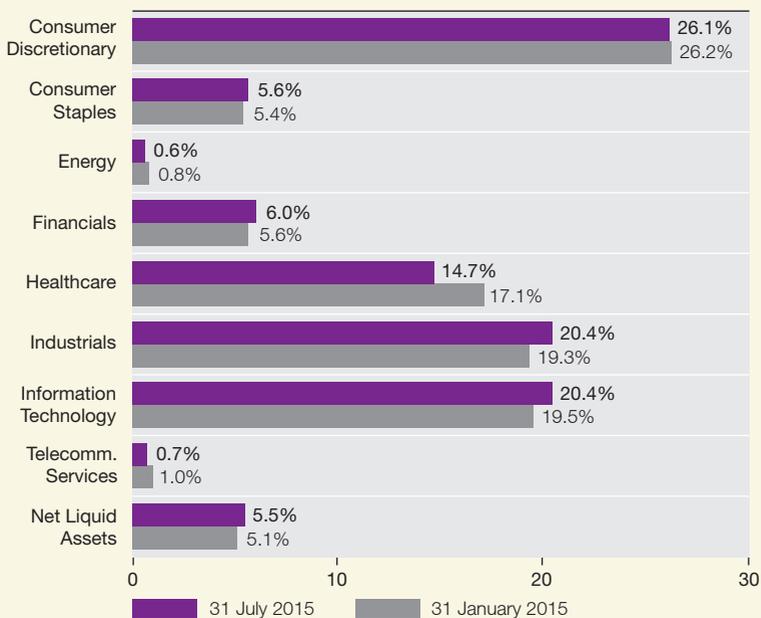
The principal risks and uncertainties facing the Company are set out on the inside front cover of this report.

## Twenty Largest Equity Holdings at 31 July 2015

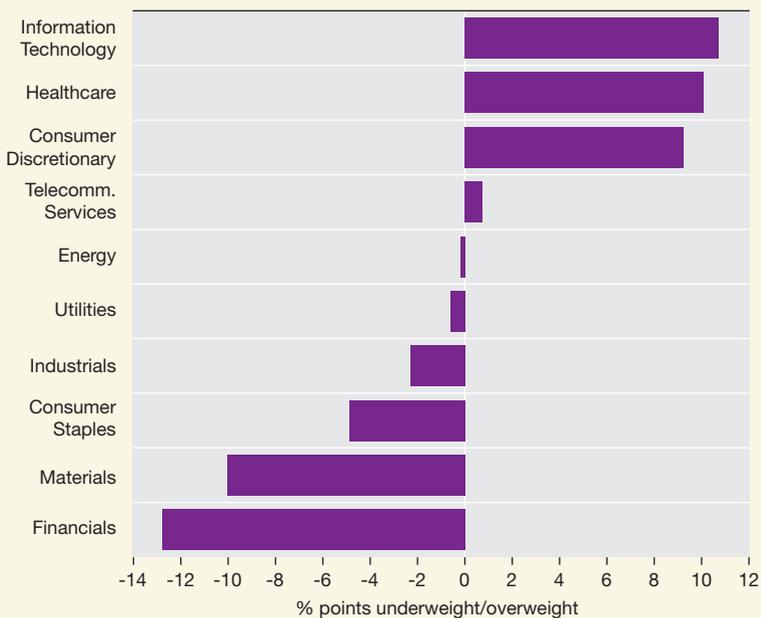
Name	Business	Value £'000	% of total assets
MonotaRO	Online business supplies	6,353	3.8
Nihon M&A Center	M&A advisory services	4,654	2.8
Cookpad	Recipe website	4,583	2.7
Infomart Corp	Internet platform for restaurant supplies	4,559	2.7
Asahi Intecc	Specialist medical equipment	4,336	2.6
M3	Online medical database	4,316	2.6
Don Quijote	Discount store chain	4,296	2.6
Asics	Sports shoes and clothing	4,280	2.5
Next	Provides online property information	4,131	2.4
Start Today	Internet fashion retailer	3,952	2.4
Pigeon	Baby care products	3,725	2.2
Iriso Electronics	Specialist auto connectors	3,627	2.2
Japan Exchange Group	Stock exchange operator	3,497	2.1
GMO Payment Gateway	Online payment processing	3,486	2.1
Nifco	Industrial fastener manufacturer	3,435	2.0
Nakanishi	Dental equipment	3,066	1.8
Takara Leben	Residential property developer	2,944	1.8
H.I.S.	Discount travel agency and theme parks	2,742	1.6
Cyberagent	Internet advertising and content	2,635	1.6
Hoshizaki Electric	Commercial kitchen equipment	2,557	1.5
		<b>77,174</b>	<b>46.0</b>

# Distribution and Relative Weightings

## Distribution of Total Assets



## Portfolio Weightings relative to Comparative Index\* at 31 July 2015



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

## Income Statement (unaudited)

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Net gains on investments (note 3)

Currency gains

Income from investments

Investment management fee (note 4)

Other administrative expenses

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### **Net return before finance costs and taxation**

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Finance costs of borrowings

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### **Net return on ordinary activities before taxation**

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Tax on ordinary activities (note 5)

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### **Net return on ordinary activities after taxation**

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**Net return per ordinary share** (note 7)

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For the six months ended 31 July 2015			For the six months ended 31 July 2014		
Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
–	20,455	<b>20,455</b>	–	932	<b>932</b>
–	1,343	<b>1,343</b>	–	427	<b>427</b>
777	–	<b>777</b>	776	–	<b>776</b>
(546)	–	<b>(546)</b>	(427)	–	<b>(427)</b>
(180)	–	<b>(180)</b>	(177)	–	<b>(177)</b>
51	21,798	<b>21,849</b>	172	1,359	<b>1,531</b>
(200)	–	<b>(200)</b>	(255)	–	<b>(255)</b>
(149)	21,798	<b>21,649</b>	(83)	1,359	<b>1,276</b>
(78)	–	<b>(78)</b>	(78)	–	<b>(78)</b>
<b>(227)</b>	<b>21,798</b>	<b>21,571</b>	<b>(161)</b>	<b>1,359</b>	<b>1,198</b>
<b>(0.61p)</b>	<b>58.63p</b>	<b>58.02p</b>	<b>(0.44p)</b>	<b>3.68p</b>	<b>3.24p</b>

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.

## Balance Sheet (unaudited)

	At 31 July 2015 £'000	At 31 January 2015 £'000
<b>Fixed asset investments</b>		
Listed equities	158,631	140,006
<b>Current assets</b>		
Debtors	1,044	757
Cash and short term deposits	9,113	8,181
	10,157	8,938
<b>Creditors</b>		
Amounts falling due within one year	(915)	(1,415)
<b>Net current assets</b>	9,242	7,523
<b>Total assets less current liabilities</b>	167,873	147,529
<b>Creditors</b>		
Amounts falling due after more than one year (note 8)	(17,248)	(18,894)
<b>Total net assets</b>	<b>150,625</b>	<b>128,635</b>
<b>Capital and reserves</b>		
Called up share capital	3,728	3,718
Share premium account	23,726	23,317
Capital redemption reserve	21,521	21,521
Capital reserve	106,944	85,146
Revenue reserve	(5,294)	(5,067)
<b>Shareholders' funds</b>	<b>150,625</b>	<b>128,635</b>
<b>Net asset value per ordinary share</b> (after deducting borrowings at book value)	<b>404.1p</b>	<b>346.0p</b>
<b>Net asset value per ordinary share</b> (after deducting borrowings at fair value) (note 9)	<b>402.2p</b>	<b>343.7p</b>
<b>Net asset value per ordinary share</b> (after deducting borrowings at par value)	<b>403.9p</b>	<b>345.8p</b>
<b>Ordinary shares in issue</b> (note 10)	<b>37,275,497</b>	<b>37,175,497</b>

## Statement of Changes in Equity (unaudited)

### For the six months ended 31 July 2015

	Called up 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 2015	3,718	23,317	21,521	85,146	(5,067)	<b>128,635</b>
Ordinary shares issued (note 10)	10	409	–	–	–	<b>419</b>
Net return on ordinary activities after taxation	–	–	–	21,798	(227)	<b>21,571</b>
<b>Shareholders' funds at 31 July 2015</b>	<b>3,728</b>	<b>23,726</b>	<b>21,521</b>	<b>106,944</b>	<b>(5,294)</b>	<b>150,625</b>

### For the six months ended 31 July 2014

	Called up 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 2014	3,668	21,783	21,521	71,682	(4,693)	<b>113,961</b>
Ordinary shares issued (note 10)	50	1,538	–	–	–	<b>1,588</b>
Net return on ordinary activities after taxation	–	–	–	1,359	(161)	<b>1,198</b>
<b>Shareholders' funds at 31 July 2014</b>	<b>3,718</b>	<b>23,321</b>	<b>21,521</b>	<b>73,041</b>	<b>(4,854)</b>	<b>116,747</b>

\* The Capital reserve includes investment holding gains of £73,563,000 (31 July 2014 – gains of £50,993,000).

## Condensed Cash Flow Statement (unaudited)

	Six months to 31 July 2015 £'000	Six months to 31 July 2014 £'000
Net cash inflow from operating activities (note 12)	34	40
Interest paid	(209)	(249)
<b>Net cash outflow from operating activities</b>	<b>(175)</b>	<b>(209)</b>
<b>Net cash inflow/(outflow) from investing activities</b>	<b>1,080</b>	<b>(1,222)</b>
Ordinary shares issued	419	1,588
<b>Net cash inflow from financing activities</b>	<b>419</b>	<b>1,588</b>
Increase in cash and cash equivalents	1,324	157
Cash and cash equivalents at start of period	8,181	7,606
Exchange movements on cash	(392)	(263)
<b>Cash and cash equivalents at end of period†</b>	<b>9,113</b>	<b>7,500</b>

†Cash and cash equivalents represent cash at bank.

## Notes to the Condensed Financial Statements (unaudited)

- 1 The condensed financial statements for the six months to 31 July 2015 comprise the statements set out on pages 6 to 10 together with the related notes on pages 11 and 13. They have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the AIC's Statement of Recommended Practice issued in November 2014 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 has adopted FRS 102 for its financial year ending 31 January 2016. Following the application of the new reporting standards and the AIC's issued Statement of Recommended Practice, there has been no impact on the Company's Income Statement, Balance Sheet or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for periods previously reported. The Condensed Cash Flow Statement has been restated to reflect presentational changes required and does not include any other material changes. The financial statements for the six months to 31 July 2015 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 2015.

### Fair Value

In accordance with FRS102 and FRS104 fair value measurements have been classified using the following fair value hierarchy:

Level A – Quoted prices for identical instruments in active markets

Level B – Prices of a recent transaction for identical instruments

Level C – Valuation techniques that use:

- (i) observable market data; or
- (ii) Non-observable data.

All of the Company's investments fall into level A for the periods reported.

### Going Concern

The Company's investments, which are in readily realisable quoted securities, 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 Interim 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 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 2015 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 2015 £'000	Six months to 31 July 2014 £'000
<b>3 Net gains on investments</b>		
Gains/(losses) on sales of investments	5,943	(68)
Movement in investment holding gains	14,512	1,000
	<b>20,455</b>	<b>932</b>

## Notes to the Condensed Financial Statements (unaudited)

- 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 and 0.65% on the remaining net assets, calculated 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.

	Six months to 31 July 2015 £'000	Six months to 31 July 2014 £'000
<b>7 Net return per ordinary share</b>		
Revenue return	(227)	(161)
Capital return	21,798	1,359
<b>Total Return</b>	<b>21,571</b>	<b>1,198</b>

Net return per ordinary share is based on the above totals of revenue and capital and on 37,178,812 (31 July 2014 – 36,899,254) 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 £17,248,000 (¥3.35 billion) outstanding under a yen loan facility repayable on 27 November 2020 (31 January 2015 – £18,894,000 (¥3.35 billion)).
- 9** The fair value of the bank loan at 31 July 2015 was £17,968,000 (31 January 2015 – £19,745,000).
- 10** 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, 100,000 shares were issued at a premium to net asset value raising net proceeds of £419,000 (31 July 2014 – 500,000 shares raising net proceeds of £1,588,000. No shares were bought back during the period under review (31 July 2014 – nil).
- 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 2014 – £3,000) and transaction costs on sales amounted to £5,000 (31 July 2014 – £2,000).

	Six months to 31 July 2015 £'000	Six months to 31 July 2014 £'000
<b>12 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities</b>		
Net return before finance costs and taxation	21,849	1,531
Gains on investments	(20,455)	(932)
Currency gains	(1,343)	(427)
Changes in debtors and creditors	68	(54)
Overseas withholding tax	(85)	(78)
<b>Net cash inflow from operating activities</b>	<b>34</b>	<b>40</b>

- 13** 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, 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](http://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 '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 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.

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](http://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.

## Directors

Chairman:  
MN Donaldson

PF Charig  
IA McLaren  
MR Somerset Webb  
SCN Somerville

## Managers, Secretaries and Registered Office

Baillie Gifford & Co Limited  
Calton Square  
1 Greenside Row  
Edinburgh  
EH1 3AN  
Tel: 0131 275 2000  
[www.bailliegifford.com](http://www.bailliegifford.com)

## Registrar

Computershare Investor  
Services PLC  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZZ  
Tel: 0370 889 3223

## Brokers

Panmure Gordon & Co  
One New Change  
London  
EC4M 9AF

## Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
Level 4  
Atria One  
144 Morrison Street  
Edinburgh  
EH3 8EX

## Depository

BNY Mellon Trust & Depository  
(UK) Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London  
EC4V 4LA

## Company Details

[www.shinnippon.co.uk](http://www.shinnippon.co.uk)  
Company registration  
No. SC093345  
ISIN GB0000706274  
Sedol 0070627  
Ticker BGS

## Further Information

Client Relations Team  
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Calton Square  
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Edinburgh  
EH1 3AN

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Your call may be recorded  
E-mail:  
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Fax: 0131 275 3955