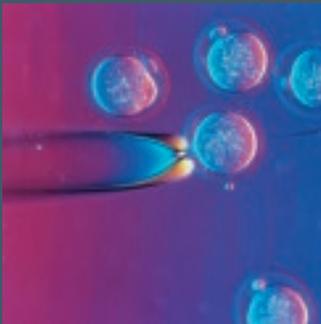
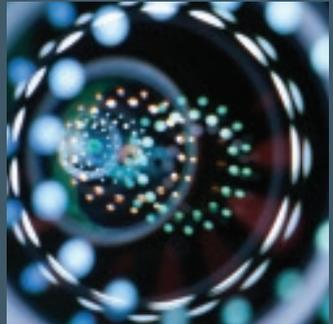
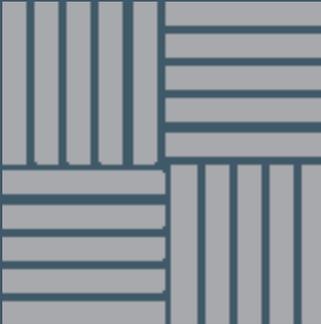


# BAILLIE GIFFORD SHIN NIPPON PLC

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Investing in new  
opportunities in Japan



Interim Financial Report  
31 July 2017





## 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 6 and 7 of the Company's Annual Report and Financial Statements for the year to 31 January 2017 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).

On behalf of the Board  
MN Donaldson  
Chairman  
25 September 2017

## Summary of Unaudited Results

|   | 31 July<br>2017 | 31 January<br>2017 | % change |
|---|-----------------|--------------------|----------|
| Shareholders' funds   | £284.2m         | £233.9m            |          |
| Net asset value per ordinary share<br>(after deducting borrowings at fair value)* | 669.6p          | 577.4p             | 16.0     |
| Share price   | 707.0p          | 598.0p             | 18.2     |
| Comparative index†  |                 |                    | 7.5      |
| Premium (borrowings at fair value)*   | 5.6%            | 3.6%               |          |
| Active share*   | 93%             | 94%                |          |

|   | Six months to 31 July 2017 |        | Year to 31 January 2017 |        |
|---|----------------------------|--------|-------------------------|--------|
| Period's high and low   | High                       | Low    | High                    | Low    |
| Net asset value per ordinary share<br>(after deducting borrowings at fair value)* | 693.7p                     | 574.9p | 612.7p                  | 374.8p |
| Share price   | 717.5p                     | 598.0p | 622.0p                  | 386.0p |
| Premium/(discount) (borrowings at fair value)*                                    | 8.1%                       | (0.3%) | 9.6%                    | (6.6%) |

## Longer Term Performance at 31 July 2017

|                                     | 3 Years | 5 Years | 10 Years |
|-------------------------------------|---------|---------|----------|
| Net asset value per ordinary share# | 114.9%  | 245.9%  | 242.6%   |
| Share price                         | 117.8%  | 287.4%  | 297.2%   |
| Comparative index†                  | 74.6%   | 127.5%  | 158.6%   |

Source: Thomson Reuters Datastream/Baillie Gifford. See disclaimer on page 17.

### Notes

\* 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

High growth smaller companies in Japan rebounded strongly in the first half of this year having been out of favour last year due to external macro and political factors. Investors were encouraged by a series of positive economic data releases and strong corporate results in Japan, both of which highlighted an improving business environment for smaller companies. Encouragingly, we are seeing broader-based strength across corporate Japan, with companies from a number of sectors continuing to generate impressive rates of growth.

In the six months to 31 July 2017, Shin Nippon's net asset value per share (after deducting borrowings at fair value) rose by 16.0% compared to a 7.5% rise in the MSCI Japan Small Cap index.

The domestic economy in Japan continues to expand; the most recent quarterly GDP growth figure means that Japan has now enjoyed 6 consecutive quarters of positive growth, the longest such streak in over a decade. Both domestic consumption and corporate spending on capex have been key contributors to domestic growth. The labour market continues to remain tight and the jobs-to-applicants ratio has now exceeded levels seen during Japan's economic bubble era. This is also beginning to put considerable upward pressure on wages which is likely to have positive implications for domestic consumption.

Fast growing, disruptive online businesses were among the top performers in the first half of the current year. Within these, there was a noticeable skew towards names related to domestic consumption. Longstanding holding Yume No Machi, Japan's leading online takeaway delivery service, continues to grow at a fast pace as the market for online food delivery evolves rapidly. The company has taken a number of measures to increase its reach and appeal with customers. These include distribution related tie-ups with LINE, Japan's leading messaging service, and Asahi Shimbun, Japan's second largest newspaper. Online fashion apparel website Start Today continues to benefit

from the rapid growth of ecommerce in Japan. It has recently introduced a deferred payment option which gives customers up to 2 months to pay for their purchases. This has been very well received by customers and there has been a noticeable acceleration in Start Today's sales as a result. Japan's leading ¥100 store operator Seria is continuing to disrupt and gain share from traditional incumbents through its sophisticated point-of-sale system which allows the company to precisely match supply and demand.

We also witnessed strong performance from companies exposed to long-term structural trends such as factory automation and car electrification. Both Harmonic Drive, a leading global manufacturer of precision gears used in small robots, and IRISO Electronics, a manufacturer of high-end connectors used in cars, are ramping up their capacity as they continue to see robust demand for their products. Staffing companies such as Outsourcing and WDB Holdings also performed well as they continue to benefit from the ongoing labour shortage in Japan. They have successfully been adding more workers to their roster and are also raising prices.

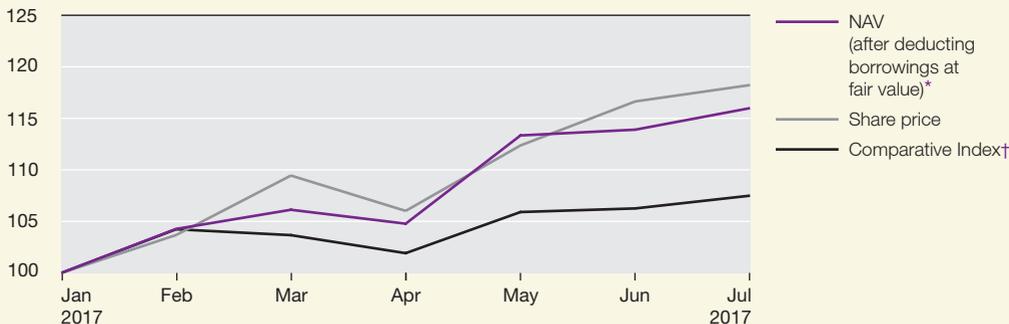
Among the poor performers was Takara Leben, a specialist condominium builder. The company is seeing a seasonal slowdown in demand and is also having to deal with rising construction costs due to labour shortage. We recently had a meeting with management and were encouraged by the measures they have put in place to mitigate the effects of rising costs. Shares in both Yonex, a leading global badminton brand, and iStyle, an online cosmetics website, were hit hard as management of both companies are investing aggressively to secure long term growth at the cost of short term profitability.

Turnover within the portfolio remains relatively low; however a few new holdings were taken over the six months. Morpho is a software company that has an interesting JV with Denso, a top tier global auto parts company. As part of this JV, Morpho is

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 2017)



\* See Glossary of Terms on page 16.

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

Source: Thomson Reuters Datastream/Baillie Gifford. See disclaimer on page 17.

co-developing image and data processing technologies for advanced driver-assist systems (or ADAS) in cars. Gumi is a small games development company that is investing heavily in creating a new set of virtual reality related applications. Torex Semiconductor, another new purchase, is a global player in low voltage power solutions for autos and industrial applications. The Company has taken a small position in an unlisted financial technology company called Moneytree which has exciting growth potential.

We have previously noted that the range of investment opportunities for Shin Nippon continues to broaden. The IPO market remains in good health and so far this year, 46 companies have gone public. The total for the full-year is expected to reach 80 to 90, which would be the highest tally in a decade. We remain excited by the increasing number of young and dynamic companies that are using the Internet to disrupt existing industries or create completely new business models.

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.

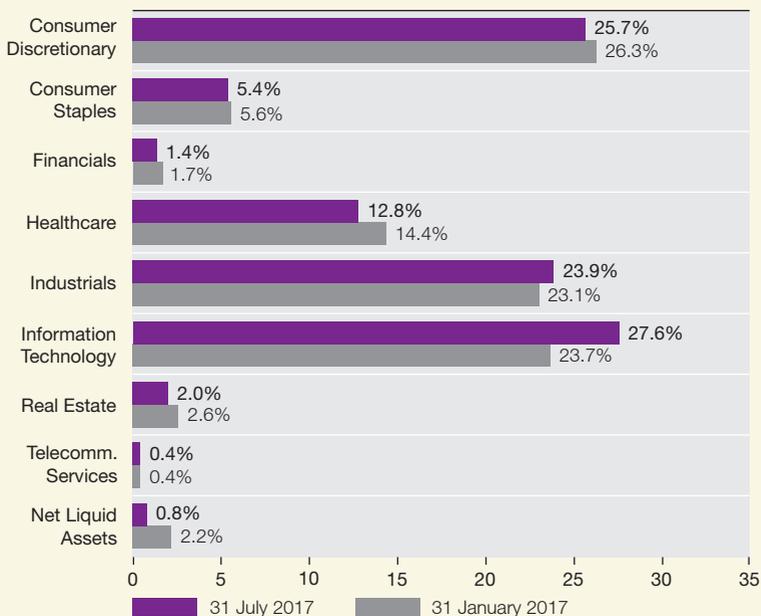
Baillie Gifford & Co

## Twenty Largest Equity Holdings at 31 July 2017

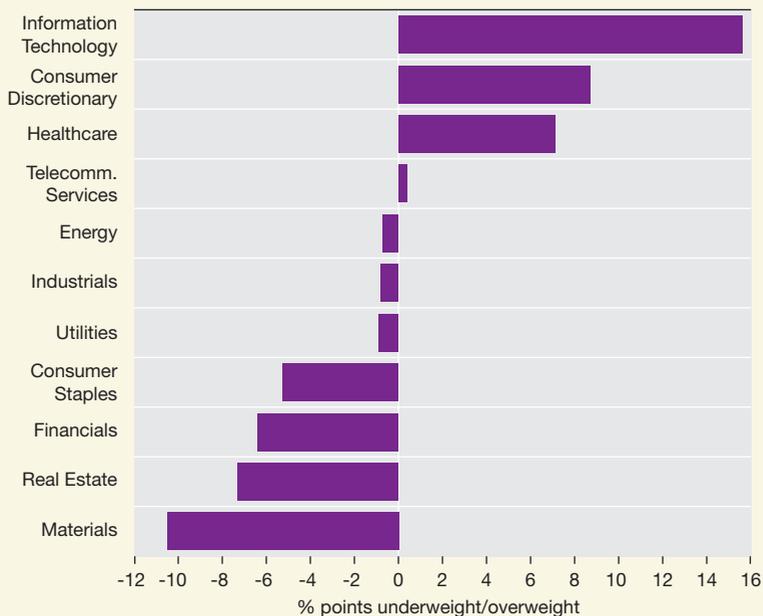
| Name                | Business                                  | Value<br>£'000 | % of total<br>assets |
|---------------------|---|----------------|----------------------|
| Start Today         | Internet fashion retailer                 | 9,599          | 3.0                  |
| MonotaRO            | Online business supplies                  | 9,415          | 2.9                  |
| Yume No Machi       | Online meal delivery service              | 8,799          | 2.7                  |
| Nihon M&A Center    | M&A advisory services                     | 8,256          | 2.6                  |
| Seria               | Discount retailer                         | 8,186          | 2.6                  |
| Harmonic Drive      | Robotic components                        | 8,017          | 2.5                  |
| Cyberagent          | Internet advertising and content          | 7,739          | 2.4                  |
| GMO Payment Gateway | Online payment processing                 | 7,606          | 2.4                  |
| Infomart Corp       | Internet platform for restaurant supplies | 7,346          | 2.3                  |
| Outsourcing         | Employment placement services             | 7,342          | 2.3                  |
| Asahi Intecc        | Specialist medical equipment              | 7,212          | 2.2                  |
| Pigeon              | Baby care products                        | 6,814          | 2.1                  |
| Peptidream          | Drug discovery platform                   | 6,608          | 2.0                  |
| Nippon Ceramic      | Manufacturer of ultrasonic sensors        | 6,439          | 2.0                  |
| Lifull              | Real estate information service           | 6,365          | 2.0                  |
| M3                  | Online medical services                   | 6,347          | 2.0                  |
| iStyle              | Cosmetics website                         | 6,333          | 2.0                  |
| IRISO Electronics   | Specialist auto connectors                | 6,215          | 1.9                  |
| Technopro Holdings  | IT staffing                               | 5,653          | 1.8                  |
| Horiba              | Manufacturer of measuring instruments     | 5,518          | 1.7                  |
|                     |   | <b>145,809</b> | <b>45.4</b>          |

# Distribution and Relative Weightings

## Distribution of Total Assets



## Portfolio Weightings relative to Comparative Index\* at 31 July 2017



\* 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 2017 |                  |                | For the six months ended 31 July 2016 |                  |                |
|--|---------------------------------------|------------------|----------------|---------------------------------------|------------------|----------------|
|  | Revenue<br>£'000                      | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000                      | Capital<br>£'000 | Total<br>£'000 |
| Net gains on investments (note 3)                        | –                                     | 36,186           | <b>36,186</b>  | –                                     | 52,676           | <b>52,676</b>  |
| Currency gains/(losses)                                  | –                                     | 1,211            | <b>1,211</b>   | –                                     | (4,123)          | <b>(4,123)</b> |
| Income from investments                                  | 1,575                                 | –                | <b>1,575</b>   | 1,315                                 | –                | <b>1,315</b>   |
| Investment management fee (note 4)                       | (935)                                 | –                | <b>(935)</b>   | (741)                                 | –                | <b>(741)</b>   |
| Other administrative expenses                            | (221)                                 | –                | <b>(221)</b>   | (182)                                 | –                | <b>(182)</b>   |
| <b>Net return before finance costs and taxation</b>      | <b>419</b>                            | <b>37,397</b>    | <b>37,816</b>  | <b>392</b>                            | <b>48,553</b>    | <b>48,945</b>  |
| Finance costs of borrowings                              | (342)                                 | –                | <b>(342)</b>   | (259)                                 | –                | <b>(259)</b>   |
| <b>Net return on ordinary activities before taxation</b> | <b>77</b>                             | <b>37,397</b>    | <b>37,474</b>  | <b>133</b>                            | <b>48,553</b>    | <b>48,686</b>  |
| Tax on ordinary activities (note 5)                      | (157)                                 | –                | <b>(157)</b>   | (132)                                 | –                | <b>(132)</b>   |
| <b>Net return on ordinary activities after taxation</b>  | <b>(80)</b>                           | <b>37,397</b>    | <b>37,317</b>  | <b>1</b>                              | <b>48,553</b>    | <b>48,554</b>  |
| <b>Net return per ordinary share</b> (note 7)            | <b>(0.19p)</b>                        | <b>90.61p</b>    | <b>90.42p</b>  | <b>–</b>                              | <b>126.84p</b>   | <b>126.84p</b> |

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<br>2017<br>£'000 | At 31 January<br>2017<br>£'000 |
|---|-----------------------------|--------------------------------|
| <b>Fixed asset investments</b>  |                             |                                |
| Investments held at fair value through profit or loss (note 8)                                    | 318,281                     | 251,680                        |
| <b>Current assets</b>   |                             |                                |
| Debtors   | 1,090                       | 801                            |
| Cash and cash equivalents   | 2,337                       | 5,520                          |
|   | 3,427                       | 6,321                          |
| <b>Creditors</b>  |                             |                                |
| Amounts falling due within one year   | (842)                       | (553)                          |
| <b>Net current assets</b>   | 2,585                       | 5,768                          |
| <b>Total assets less current liabilities</b>  | 320,866                     | 257,448                        |
| <b>Creditors</b>  |                             |                                |
| Amounts falling due after more than one year (note 9)   | (36,636)                    | (23,576)                       |
| <b>Total net assets</b>   | <b>284,230</b>              | <b>233,872</b>                 |
| <b>Capital and reserves</b>   |                             |                                |
| Share capital   | 4,235                       | 4,040                          |
| Share premium account   | 52,940                      | 40,094                         |
| Capital redemption reserve  | 21,521                      | 21,521                         |
| Capital reserve   | 210,870                     | 173,473                        |
| Revenue reserve   | (5,336)                     | (5,256)                        |
| <b>Shareholders' funds</b>  | <b>284,230</b>              | <b>233,872</b>                 |
| <b>Net asset value per ordinary share</b><br>(after deducting borrowings at book value)           | <b>671.2p</b>               | <b>579.0p</b>                  |
| <b>Net asset value per ordinary share</b><br>(after deducting borrowings at fair value) (note 10) | <b>669.6p</b>               | <b>577.4p</b>                  |
| <b>Net asset value per ordinary share</b><br>(after deducting borrowings at par value)            | <b>671.0p</b>               | <b>578.8p</b>                  |
| <b>Ordinary shares in issue</b> (note 11)   | <b>42,345,497</b>           | <b>40,395,497</b>              |

## Statement of Changes in Equity (unaudited)

### For the six months ended 31 July 2017

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

### For the six months ended 31 July 2016

|  | Share capital<br>£'000 | Share premium account<br>£'000 | Capital redemption reserve<br>£'000 | Capital reserve *<br>£'000 | Revenue reserve<br>£'000 | Shareholders' funds<br>£'000 |
|--|------------------------|--------------------------------|-------------------------------------|----------------------------|--------------------------|------------------------------|
| Shareholders' funds at 1 February 2016           | 3,778                  | 25,733                         | 21,521                              | 117,715                    | (5,357)                  | <b>163,390</b>               |
| Ordinary shares issued (note 11)                 | 185                    | 9,843                          | –                                   | –                          | –                        | <b>10,028</b>                |
| Net return on ordinary activities after taxation | –                      | –                              | –                                   | 48,553                     | 1                        | <b>48,554</b>                |
| <b>Shareholders' funds at 31 July 2016</b>       | <b>3,963</b>           | <b>35,576</b>                  | <b>21,521</b>                       | <b>166,268</b>             | <b>(5,356)</b>           | <b>221,972</b>               |

\* The Capital reserve includes investment holding gains of £159,020,000 (31 July 2016 – gains of £127,336,000).

## Condensed Cash Flow Statement (unaudited)

|  | Six months to<br>31 July<br>2017<br>£'000 | Six months to<br>31 July<br>2016<br>£'000 |
|--|---|---|
| <b>Cash flows from operating activities</b>                |   |   |
| Net return on ordinary activities before taxation          | 37,474                                    | 48,686                                    |
| Net gains on investments                                   | (36,186)                                  | (52,676)                                  |
| Currency (gains)/losses                                    | (1,211)                                   | 4,123                                     |
| Finance costs of borrowings                                | 342                                       | 259                                       |
| Overseas withholding tax                                   | (181)                                     | (129)                                     |
| Changes in debtors and creditors                           | (203)                                     | 53  |
| <b>Cash from operations</b>                                | 35  | 316                                       |
| Interest paid  | (303)                                     | (232)                                     |
| <b>Net cash (outflow)/inflow from operating activities</b> | (268)                                     | 84  |
| <b>Net cash outflow from investing activities</b>          | (30,284)                                  | (6,725)                                   |
| Ordinary shares issued                                     | 13,041                                    | 10,028                                    |
| Bank loans drawdown  | 14,403                                    | –   |
| <b>Net cash inflow from financing activities</b>           | 27,444                                    | 10,028                                    |
| <b>(Decrease)/increase in cash and cash equivalents</b>    | (3,108)                                   | 3,387                                     |
| Exchange movements   | (75)                                      | 812                                       |
| Cash and cash equivalents at start of period               | 5,520                                     | 5,106                                     |
| <b>Cash and cash equivalents at end of period*</b>         | <b>2,337</b>                              | <b>9,305</b>                              |

\* 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 2017 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 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 Financial Statements for the six months to 31 July 2017 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 2017.

### 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 2017 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<br>to 31 July<br>2017<br>£'000 | Six months<br>to 31 July<br>2016<br>£'000 |
|--------------------------------------|---|---|
| <b>3 Net gains on investments</b>    |   |   |
| Gains on sales of investments        | 6,294                                     | 8,308                                     |
| Movement in investment holding gains | 29,892                                    | 44,368                                    |
|                                      | <b>36,186</b>                             | <b>52,676</b>                             |

- 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. Prior to 1 September 2016 the management fee was 0.95% on the first £50m of net assets and 0.65% on the remaining net assets, calculated and payable quarterly.

## Notes to the Condensed Financial Statements (unaudited)

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

|  | Six months<br>to 31 July<br>2017<br>£'000 | Six months<br>to 31 July<br>2016<br>£'000 |
|--|---|---|
| <b>7 Net return per ordinary share</b> |   |   |
| Revenue return                         | (80)                                      | 1   |
| Capital return                         | 37,397                                    | 48,553                                    |
| <b>Total Return</b>                    | <b>37,317</b>                             | <b>48,554</b>                             |

Net return per ordinary share is based on the above totals of revenue and capital and on 41,273,398 (31 July 2016 – 38,280,167) ordinary shares, being the weighted average number of ordinary shares in issue during the period. There are no dilutive or potentially dilutive shares in issue.

### 8 Fair Value

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

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

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

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

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

| As at 31 July 2017                       | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|--|------------------|------------------|------------------|----------------|
| Listed equities                          | 316,702          | –                | –                | <b>316,702</b> |
| Unlisted equities                        | –                | –                | 1,579            | <b>1,579</b>   |
| <b>Total financial asset investments</b> | <b>316,702</b>   | <b>–</b>         | <b>1,579</b>     | <b>318,281</b> |

| As at 31 January 2017                    | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|--|------------------|------------------|------------------|----------------|
| Listed equities                          | 251,680          | –                | –                | <b>251,680</b> |
| Unlisted equities                        | –                | –                | –                | <b>–</b>       |
| <b>Total financial asset investments</b> | <b>251,680</b>   | <b>–</b>         | <b>–</b>         | <b>251,680</b> |

## 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 £36,636,000 (¥5.35 billion) outstanding under yen loan facilities repayable on 27 November 2020 (31 January 2017 – £23,576,000 (¥3.35 billion)). During the period an additional ¥2 billion facility was arranged with ING Bank N.V. and fully drawn down, bringing total borrowings at 31 July 2017 to ¥5.35 billion.
- 10 The fair value of the bank loans at 31 July 2017 was £37,313,000 (31 January 2017 – £24,216,000).
- 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, 1,950,000 shares were issued at a premium to net asset value raising net proceeds of £13,041,000 (31 July 2016 – 1,850,000 shares raising net proceeds of £10,028,000). No shares were bought back during the period under review (31 July 2016 – nil).
- 12 Transaction costs incurred on the purchase and sale of the investments are added to the purchase cost or deducted from the sale proceeds, as appropriate. During the period, transaction costs on purchases amounted to £19,000 (31 July 2016 – £14,000) and transaction costs on sales amounted to £7,000 (31 July 2016 – £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.

### 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 '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.

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.

*(Risk Warnings continued on next page)*

## Risk Warnings (continued)

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.

## 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 with effect from 1 January 2016 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.

### 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.

### Net Asset Value (Borrowings at Par Value)

Borrowings are valued at their nominal par value. The Company's yen denominated loans are valued at their sterling equivalent.

### 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.

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## Directors

Chairman:  
MN Donaldson

PF Charig  
IA McLaren  
MR Somerset Webb  
SCN Somerville

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ISIN GB0000706274  
Sedol 0070627  
Ticker BGS  
  
Legal Entity Identifier:  
X5XCIPCJQCSUF8H1FU83

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